COMPLETED 832 Y4.W36:WMCP99-14

99TH CONGRESS
2d Session

COMMITTEE PRINT

WMCP: 99-14

ORIGINAL
mf126

COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES

BACKGROUND MATERIAL AND DATA ON PROGRAMS WITHIN THE JURISDICTION OF THE COMMITTEE ON WAYS AND MEANS

1986 EDITION

MARCH 3, 1986

Prepared for the use of the Committee on Ways and Means by its staff

99th Congress
2d Session

COMMITTEE PRINT

WMCP: 99-14

COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES

BACKGROUND MATERIAL AND DATA ON PROGRAMS WITHIN THE JURISDICTION OF THE COMMITTEE ON WAYS AND MEANS

1986 EDITION

MARCH 3, 1986

Prepared for the use of the Committee on Ways and Means by its staff

U.S. GOVERNMENT PRINTING OFFICE
57-373 O
WASHINGTON : 1986

COMMITTEE ON WAYS AND MEANS

DAN ROSTENKOWSKI, Illinois, *Chairman*

SAM M. GIBBONS, Florida
J. J. PICKLE, Texas
CHARLES B. RANGEL, New York
FORTNEY H. (PETE) STARK, California
JAMES R. JONES, Oklahoma
ANDY JACOBS, Jr., Indiana
HAROLD FORD, Tennessee
ED JENKINS, Georgia
RICHARD A. GEPHARDT, Missouri
THOMAS J. DOWNEY, New York
CECIL (CEC) HEFTEL, Hawaii
WYCHE FOWLER, Jr., Georgia
FRANK J. GUARINI, New Jersey
MARTY RUSSO, Illinois
DON J. PEASE, Ohio
ROBERT T. MATSUI, California
BERYL ANTHONY, Jr., Arkansas
RONNIE G. FLIPPO, Alabama
BYRON L. DORGAN, North Dakota
BARBARA B. KENNELLY, Connecticut
BRIAN J. DONNELLY, Massachusetts
WILLIAM J. COYNE, Pennsylvania

JOHN J. DUNCAN, Tennessee
BILL ARCHER, Texas
GUY VANDER JAGT, Michigan
PHILIP M. CRANE, Illinois
BILL FRENZEL, Minnesota
RICHARD T. SCHULZE, Pennsylvania
BILL GRADISON, Ohio
W. HENSON MOORE, Louisiana
CARROLL A. CAMPBELL, Jr., South Carolina
WILLIAM M. THOMAS, California
RAYMOND J. McGRATH, New York
HAL DAUB, Nebraska
JUDD GREGG, New Hampshire

JOSEPH K. DOWLEY, *Chief Counsel*
M. KENNETH BOWLER, *Deputy Chief of Staff*
ROBERT J. LEONARD, *Chief Tax Counsel*
A.L. SINGLETON, *Minority Chief of Staff*

PREFACE

This document has been prepared for the use of the Committee on Ways and Means by its staff in conjunction with the committee's consideration of possible revisions in the various programs under its jurisdiction.

The book is divided into five parts:

Part 1—Description of programs providing benefits or services to individuals within the jurisdiction of the Committee on Ways and Means.

Part 2—Description of trust funds for which the Committee on Ways and Means has revenue jurisdiction.

Part 3—Revenues.

Part 4—Other matters within the jurisdiction of the Committee on Ways and Means including public debt, the Pension Benefit Guarantee Corporation, the Federal Financing Bank, and capital construction funds.

Part 5—Description of the Balanced Budget and Emergency Deficit Control Act of 1985 (Gramm-Rudman).

Within part 1, there are summary tables indicating the relative size and recent growth of the individual programs. For each of the programs, there is extensive information on:

(a) Who is eligible for the program;

(b) How the payment is actually computed;

(c) How the program is financed, and for programs financed from trust funds, the shortrun and longrun financial solvency of those funds;

(d) Characteristics of individuals served by the program;

(e) Interactions with other major programs, and

(f) Historical information about how the program has evolved.

For the programs described in part 2, a brief legislative history, the current financing mechanism, and the financial status of the trust fund is presented.

Finally, the document contains 13 appendices setting out in detail:

(a) Statistical history of the social security programs;

(b) Tables describing the demographic and economic resources of the elderly;

(c) National health expenditures and health care expenditures of the elderly;

(d) How medicare reimburses hospitals and doctors;

(e) A description of the medicaid program;

(f) Unemployment data and historical tables on unemployment compensation;

(g) A short description of the food stamp program;

(h) A short description of the low-income energy assistance program;

(i) Budgetary impact of legislative changes enacted during 1981 to 1985 for spending programs within the jurisdiction of the Committee on Ways and Means;

(j) Characteristics and poverty status of families with children and combined Federal impact of AFDC, Food Stamps, and Federal taxes on families: selected years 1960 to 1984;

(k) Selected economic and population data for the United States and by State; and

(l) A description of quality control statistics.

The committee wishes to express its appreciation to the many individuals for their contributions and long hours toward completing this project. In particular the committee wishes to recognize:

(1) The Congressional Research Service of the Library of Congress for assistance in preparing section 7 of part 1, section 2 of part 3, and Appendices C, D, E, F, G, H, and J; their assistance in updating the tables in sections 7, 8, and 11 and Appendix B;

(2) The Congressional Budget Office for their analysis of the impact of the 1981 to 1984 legislative changes described in Appendix I, for the summary tables in section 1 of part 1 and the projections of the OASI, DI, and HI trust funds;

(3) The Social Security Administration for its assistance in updating the tables in sections 2, 3, 8, and 11 of part 1, Appendix A, and for some of the tables in Appendix B;

(4) The Health Care Financing Administration for updating tables in section 4 of part 1 and Appendices C, D, and E;

(5) The Office of the Actuary (Social Security Administration) for assistance with section 5 of part 1;

(6) The Department of Labor for their assistance in updating tables in sections 6 and 7 of part 1 and Appendix F;

(7) The staff of the Railroad Retirement Board for their assistance in updating sections 12 and 13 in part 2; and

(8) The Bureau of the Census for updating tables in Appendices B and K.

This material has been assembled in a limited amount of time in order that it be available to the Members for use in connection with their deliberations on various budget issues presently pending before the committee. Comments as to how the contents or format of this document could be improved are most appreciated and will help in future revisions so that it can better serve as a resource tool.

CONTENTS

Page

Preface III

PART 1. DESCRIPTION OF PROGRAMS WITHIN THE JURISDICTION OF THE COMMITTEE ON WAYS AND MEANS PROVIDING BENEFITS OR SERVICES TO INDIVIDUALS

Section 1. Summary tables illustrating growth of Federal expenditures for programs under Ways and Means jurisdiction 3

Section 2. The old-age and survivors insurance programs (OASI) 14
- Benefits 14
- Benefit eligibility: Insured status 17
- Benefit computation 18
- Benefit amounts 22
- Benefit reduction and increase 24
- Automatic benefit adjustments 27
- Taxation of Social Security (OASDI) benefits for higher income persons 28
- Legislative changes made in the 97th Congress 29
- Legislative changes made in the 98th Congress 30
- Characteristics of beneficiary population 32

Appendix A. Statistical history and future benefit projections of the social security programs 43
- Coverage 43
- Benefits 49
- Financing 66

Appendix B. Demographic and economic characteristics of the aged 73

Section 3. Disability insurance program 108
- Benefits 108
- Benefit computation 110
- Determination of disability 112
- Vocational rehabilitation 116
- Disability claims and appeals structure 116
- Recent experience in the disability program 121
- Characteristics of DI beneficiaries 123
- Recent legislative changes 125

Section 4. Medicare 133
- Eligibility 133
- Number of beneficiaries 133

Page
- Coverage 135
- Benefits 135
- Administration 139
- End stage renal disease program 141
- Home health 143
- Hospice care 145
- Skilled nursing facility 146
- Utilization and quality control peer review program 147
- Financing 148
- Financial status of the trust funds 149
- Recent legislative changes 157
- 1985 legislative changes 161
- 1984 legislative changes 162
- Reports and studies 172

Appendix C. National health care expenditures and expenditures for health care of the elderly 177

Appendix D. Reimbursement for hospitals and physicians under medicare 198
- Reimbursements to hospitals 198
- Reimbursement to physicians 232

Appendix E. Brief explanation of medicaid program and interaction with AFDC, SSI, and medicare programs 246

Section 5. OASDHI financing 260
- Current law financing 260
- History of financing structure 264
- Impact of Social Security Amendments of 1983 269
- Current short-range status of the trust funds 272
- Long range status of the trust funds 280
- Economic and demographic assumptions 285

Section 6. Trade adjustment assistance 289
- Trade adjustment assistance program for workers 289
- Trade adjustment assistance program for firms 295
- Legislative changes during 1985 298

Section 7. Unemployment compensation 299
- Overview 299
- Benefits 304
- Extended benefits 313
- Federal supplemental compensation 315
- Hypothetical benefit levels for various workers in the regular State programs 316
- Financing 318
- Administration's fiscal year 1987 financial projections 327
- Administrative financing and allocation 330
- Recent major legislation 332

Appendix F. Statistical data on unemployment and historical information on the unemployment compensation program 335

Section 8. Aid to families with dependent children (title IV-A) 354
- Eligibility 354
- Treatment of earnings 355
- Monthly reporting and retrospective budgeting 356

Page

- Work requirements and programs ... 357
- Treatment of resources ... 366
- AFDC for unemployed parents (AFDC-UP) ... 366
- Interaction between AFDC and other programs ... 367
- Current benefit levels and trends ... 369
- Financing ... 382
- Federal and State expenditures ... 384
- The 1985 caseload and recent trends ... 388
- Characteristics of AFDC families ... 392
- Turnover within the AFDC caseload ... 398
- The 1984 amendments ... 399
- Impact of 1981 program changes ... 402
- Budgetary estimates of 1981-84 legislative changes in the AFDC program ... 404

Section 9. Child support enforcement program ... 407
- Background ... 407
- Who is served ... 407
- The Federal role ... 408
- Federal enforcement tools ... 409
- The State role ... 410
- Federal garnishment and military allotment provisions ... 412
- Financing ... 413
- Demographic trends ... 416
- Program trends ... 420
- Legislative changes in the 98th Congress ... 439
- Legislative changes in the 97th Congress ... 444

Appendix G. Food stamp program ... 445

Section 10. Earned income tax credit ... 457
- Eligibility ... 457
- Benefits ... 457
- Interaction with AFDC and food stamps ... 458
- Data ... 458
- 1984 legislative action ... 459

Section 11. SSI program description ... 461
- Basic eligibility ... 461
- SSI benefit standards ... 461
- Income disregards ... 464
- Resources ... 465
- Deeming of income and resources ... 467
- Restrictions on SSI eligibility of residents of public institutions ... 468
- State supplementation ... 468
- State SSI supplementation levels over time ... 472
- State supplementation for special housing needs ... 473
- SSI outreach ... 473
- SSI and the homeless ... 474
- Comparison of SSI payment levels to poverty thresholds ... 475
- SSI program costs ... 477
- Number of recipients: 1970-89 (projected) ... 481
- Eligibility of SSI recipients for medicaid ... 482
- Eligibility of SSI recipients for food stamps ... 483
- Characteristics of the SSI population ... 483

Page

Special SSI benefits, continued medicaid services, and related provisions for the working disabled 489
Legislative action during 1984 and prior years 495

Appendix H. Low-income home energy assistance program (LIHEAP) 499
Allotments to States and territories 499
Eligibility and types of assistance 500
Planning and administration 501

Section 12. Title XX social service programs 511
Title XX social services 1974–81 511
Title XX social services block grant 511
Special title XX funding for child day care staff and parent training related to preventing child abuse 512
Planning and administrative requirements 515
Title XX program goals 515
Recipients of title XX funded social services 516
Types of social services provided under title XX 517

Section 13. Child welfare, foster care, and adoption assistance program—title IV, parts B and E 519
Summary of Federal funding of child welfare, foster care, and adoption activities under the Social Security Act 519
Title IV—B Child Welfare Services Program 522
Foster care 523
Child welfare and foster care reforms 529
Financial incentives to States to implement improved child welfare services and procedures 530
Implementation of child welfare and foster care reforms. 532
Adoption services and assistance programs 535

Appendix I. Explanation and impact of major changes enacted into law during 1981 to 1985 for spending programs within the jurisdiction of the Committee on Ways and Means 540
Appendix J. Characteristics and poverty status of families with children and combined impact of AFDC, food stamps, and Federal taxes on families: selected years 1960–84 546

Appendix K. Selected economic and population data for the United States and by State 586

Appendix L. Quality control systems 593

PART 2. TRUST FUNDS (OR SPECIAL FUNDS) WITHIN THE JURISDICTION OF THE COMMITTEE ON WAYS AND MEANS

Section 1. Black lung disability trust fund 611

Section 2. Airport and airway trust fund 616

Section 3. Highway trust fund 624

Section 4. Aquatic resources trust fund 631

Section 5. Superfunds 634

(A) Hazardous substance response trust fund 634
(B) Post-closure liability trust fund 637

Page
Section 6. Inland waterways trust fund ... 640
Section 7. Land and water conservation fund ... 642
Section 8. Wildlife restoration projects ... 646
Section 9. Reforestation trust fund ... 648
Section 10. Deep seabed revenue sharing trust fund ... 650
Section 11. Tax Court judges survivors annuity fund ... 652
Section 12. Railroad retirement system ... 655
Section 13. Railroad unemployment compensation system ... 670

PART 3. REVENUES

Section 1. Summary information ... 677
Section 2. Bibliographic information ... 691

PART 4. OTHER MATTERS WITHIN THE JURISDICTION OF THE COMMITTEE ON WAYS AND MEANS

Section 1. Public debt, debt management, and interest payments ... 699
Section 2. The Federal Financing Bank ... 707
Section 3. Pension Benefit Guaranty Corporation ... 710
Section 4. Capital construction fund ... 714

PART 5. DESCRIPTION OF THE BALANCED BUDGET AND EMERGENCY DEFICIT CONTROL ACT OF 1985 (GRAMM-RUDMAN)

Section 1. Description of Public Law 99-177 ... 719
  Maximum deficit amounts ... 719
  Sequestration timetable ... 719
  Sequestration ... 722
  Sequestration resources ... 723
  Sequestration calculations ... 730
  1986 sequestration reductions ... 732
  Illustrative 1987 calculations ... 734
  Impact of 1986 sequestration order on programs within the jurisdiction of the Committee on Ways and Means ... 737
  Budgetary resources further defined ... 737
  Defense flexibility ... 739
  Missing data ... 741
  Federal administrative costs ... 741
  Congressional response ... 741
  Suspension by joint resolution in case of recession ... 742
  Judicial review ... 743
  Amendments to the Congressional Budget Act ... 744

PART 1

DESCRIPTION OF PROGRAMS WITHIN THE JURISDICTION OF THE COMMITTEE ON WAYS AND MEANS PROVIDING BENEFITS OR SERVICES TO INDIVIDUALS

BLANK PAGE

Section 1.—Summary Tables Illustrating Growth of Federal Expenditures for Programs Under Ways and Means Jurisdiction

SUMMARY TABLE 1.—TOTAL FEDERAL EXPENDITURES FOR SPENDING PROGRAMS UNDER WAYS AND MEANS JURISDICTION FOR FISCAL YEARS 1970, 1975, 1980, 1984, AND 1985

[In billions of dollars]

	Fiscal year—				
	1970	1975	1980	1984	1985
Social Security (OASDI)	30.3	64.7	118.5	180.9	191.0
Social Security (OASI)	(27.3)	(56.7)	(103.2)	(162.4)	(171.6)
Social Security (DI)	(3.0)	(8.0)	(15.3)	(18.5)	(19.4)
Medicare	7.2	14.8	35.0	62.7	71.4
Medicare—Part A	(5.0)	(10.6)	(24.3)	(42.3)	(48.7)
Medicare—Part B	(2.2)	(4.2)	(10.7)	(20.4)	(22.7)
Trade adjustment assistance	(1)	(1)	1.6	(1)	(1)
Unemployment insurance, regular benefits	3.3	11.2	14.2	15.2	15.9
Unemployment insurance, extended benefits and Federal supplemental compensation	(1)	2.1	.6	3.0	1.3
Aid to families with dependent children (AFDC)	2.5	5.1	6.6	8.3	8.6
Child support enforcement (CSE)	(1)	(1)	.4	.5	.6
Supplemental security income (SSI)	[2] 2.0	4.7	6.4	8.5	9.6
Title XX social services program	.5	2.0	2.7	2.8	2.7
Title IV–B child welfare program and foster care	.1	.4	.4	.7	.7
Earned income tax credit [3]	(1)	1.3	1.3	1.2	1.1
Total [4]	45.9	106.3	187.6	283.9	308.5
Net interest	14.4	23.2	52.5	111.1	129.4
Total [5] (including interest)	60.3	129.5	240.1	395.0	437.9

[1] No program or outlays less than $50,000,000.

[2] Adult cash welfare programs that preceded SSI.

[3] These amounts reflect only the outlay portion of the credit.

[4] Totals may not add due to rounding.

Note.—Included in "Unemployment insurance, regular benefits" are regular benefits, unemployment compensation for ex-service members and Federal employees and Federal and State administrative costs. "Unemployment insurance, extended benefits" includes special unemployment assistance and Federal supplemental benefits. Medicare Part B expenditures have not been adjusted by subtracting premiums paid by Part B enrollees.

Source: Various OMB Budget Appendixes.

SUMMARY TABLE 2.—AVERAGE NUMBER OF RECIPIENTS IN PROGRAMS UNDER WAYS AND MEANS JURISDICTION FOR FISCAL YEARS 1970, 1975, 1980, 1984, AND 1985

[Numbers in thousands]

Programs	Fiscal year—				
	1970	1975	1980	1984	1985
Social Security (OASI) [1]	22,827	26,941	30,466	32,446	32,826
Social Security (DI) [1]	2,488	3,911	4,770	3,823	3,862
Medicare—Part A [2]	20,000	23,700	27,400	29,601	30,109
Medicare—Part B [2]	19,200	23,300	27,100	29,244	29,781
Trade adjustment assistance [3]	(4)	(4)	532	16	21
Unemployment insurance, regular benefits [5]	1,805	3,986	3,350	2,474	2,578
Aid to families with dependent children (AFDC) (includes foster care) [6]	7,429	11,066	10,597	10,969	10,853
Earned income tax credit [7]	(4)	6,215	6,954	5,818	NA
Supplemental security income (SSI)	[8] 2,958	[9] 3,893	[9] 3,682	[9] 3,696	[9] 3,799

[1] Number enrolled at mid-point of fiscal year.

[2] Persons with protection.

[3] Total number of recipients throughout the year.

[4] No program or outlays less than $50,000,000.

[5] Average weekly number, calendar year.

[6] Average monthly number.

[7] Calendar year—number of families receiving EITC.

[8] Number at mid-point of fiscal year in adult cash welfare programs that preceded SSI.

[9] From table 11, SSI section.

NA—Not available.

Note.—Figures represent an estimate of the number of recipients at a given point during the year—not all recipients during the entire year.

Source: Various OMB Budget Appendices.

SUMMARY TABLE 3.—AVERAGE EXPENDITURE PER RECIPIENT (ENROLLEE) FOR MAJOR PROGRAMS UNDER WAYS AND MEANS JURISDICTION FOR FISCAL YEARS 1970, 1975, 1980, 1984, AND 1985

[In dollars]

Programs	Fiscal year—				
	1970	1975	1980	1984	1985
Social Security (OASI) (annual)	1,197	2,104	3,387	5,005	5,228
Social Security (DI) (annual)	1,206	2,040	3,208	4,824	5,023
Medicare total	362	627	1,282	2,126	2,379
Part A (annual)	248	448	886	1,429	1,617
Part B (annual)	114	179	396	697	762
Unemployment insurance, regular benefits (weekly) [1]	46	66	96	119	122
Aid to families with dependent children (AFDC) [2] (annual family benefit)	2,136	2,520	3,288	3,864	4,056
Earned income tax credit [1, 5]	([3])	201	286	284	NA
Supplemental security income (SSI) (annual)	[4] 672	1,207	1,738	[6] 2,487	2,527

[1] Benefit, amount excludes administrative costs.

[2] Average annual benefit per family. This amount includes State expenditures.

[3] No program or outlays less than $50,000,000.

[4] Adult cash welfare programs that preceded SSI.

[5] Calendar year average per family.

[6] Adjusted to reflect 12 months of benefits instead of 11.

NA—Not available.

Source: Various OMB Budget Appendices.

SUMMARY TABLE 4.—AVERAGE EXPENDITURE IN CONSTANT 1985 DOLLARS PER RECIPIENT (ENROLLEE) FOR MAJOR PROGRAMS UNDER WAYS AND MEANS JURISDICTION FOR FISCAL YEARS 1970, 1975, 1980, 1984, AND 1985

[In dollars]

Programs	Fiscal year—				
	1970	1975	1980	1984	1985
Social Security (OASI) (annual)	3,375	4,315	4,486	5,190	5,228
Social Security (DI) (annual)	3,401	4,183	4,249	5,003	5,023
Medicare total	1,021	1,286	1,698	2,205	2,379
Part A (annual)	699	919	1,174	1,482	1,617
Part B (annual)	322	367	525	723	762
Unemployment insurance, regular benefits (weekly)	130	135	127	123	122
Aid to families with dependent children (AFDC) (annual family benefit)	6,023	5,168	4,355	4,010	4,056
Earned income tax credit	(1)	412	379	295	NA
Supplemental security income (SSI)[2] (annual)	1,895	2,475	2,302	[3] 2,579	2,527

[1] No program or outlays less than $50,000,000.

[2] Adult cash welfare programs that preceded SSI.

[3] Adjusted to reflect 12 months of benefits instead of 11.

NA—Not available.

Note.—The average expenditure (benefit) in table 3 was converted into constant 1985 dollars using the CPI-U consumer price index.

SUMMARY TABLE 5.—CBO BASELINE PROJECTIONS FOR PROGRAMS WITHIN THE JURISDICTION OF THE COMMITTEE ON WAYS AND MEANS FOR FISCAL YEARS 1985–91

[In billions of dollars]

	1985	1986	1987	1988	1989	1990	199
Social Security	191.0	200.6	212.3	227.0	242.5	260.0	276.7
OASI	171.6	180.3	191.2	204.9	219.1	234.4	250.6
DI	19.4	20.3	21.1	22.2	23.6	24.6	26.1
Medicare	71.4	74.1	81.9	91.9	102.4	114.3	127.7
Health insurance	48.7	49.0	53.2	58.9	65.3	72.5	80.5
Supplementary medical insurance	22.7	25.1	28.7	33.0	37.2	41.9	47.2
Trade adjustment assistance [1]	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Unemployment assistance	17.6	16.5	16.8	17.0	17.2	17.3	17.6
AFDC	8.6	9.2	9.5	9.8	10.0	10.3	10.8
Child support	0.6	0.7	0.8	0.8	0.8	0.8	0.9
Earned income tax credit	1.1	1.3	1.2	1.2	1.1	1.1	1.0
SSI	9.6	10.2	10.5	11.7	11.4	11.0	12.5
Social services (title XX)	2.7	2.6	2.7	2.7	2.7	2.7	2.7
Child welfare, foster care, adoption assistance	0.7	0.8	0.9	0.9	1.1	1.1	1.1
SMI premiums	5.5	5.7	6.5	7.1	7.5	8.0	8.5
Total	308.9	321.8	343.2	370.2	396.7	426.7	459.6

[1] The Trade Adjustment Assistance Program expired, December 19, 1985. However, the CBO baseline assumes the program has not expired and that outlays will total $0.1 billion per year.

Note.—SSI estimates include 13 months of benefits in fiscal year 1988 and 11 months in 1990.

Source: Congressional Budget Office.

SUMMARY TABLE 6.—CBO BASELINE REVENUE PROJECTIONS BY SOURCE

[By fiscal year, in billions of dollars]

	1985 actual	Projections					
		1986	1987	1988	1989	1990	1991
Individual income taxes	334.5	354.4	384.7	421.8	460.7	500.7	543.0
Corporate income taxes	61.3	72.2	89.2	100.2	108.0	112.2	113.9
Social insurance taxes:							
Old age, survivors, and disability insurance (OASDI)	186.2	198.3	213.4	240.7	261.2	286.7	312.0
Hospital insurance (HI)	44.9	50.8	55.5	59.8	63.8	68.7	74.2
Unemployment insurance	25.8	23.4	23.5	22.6	21.4	20.8	20.1
Other	8.4	8.2	8.5	8.6	8.7	9.0	9.1
Excise taxes:							
Windfall profit taxes	6.3	4.2	2.0	1.6	1.6	1.5	1.4
Other	29.7	29.1	28.6	27.6	27.2	27.8	28.7
Estate and gift taxes	6.4	6.1	5.6	5.4	5.1	5.4	5.8
Customs duties	12.1	12.3	13.6	14.9	15.9	16.9	18.1
Miscellaneous receipts	18.5	18.7	19.4	17.8	17.8	17.7	17.5
Total revenues	734.1	777.8	844.0	921.0	991.3	1,067.5	1,143.6

SUMMARY TABLE 7.—FEDERAL REVENUES BY SOURCE AS A PERCENTAGE OF TOTAL REVENUES FOR FISCAL YEARS 1970, 1975, 1980, 1985, 1987, AND 1991

Revenue source by type of tax	Fiscal year—					
	1970	1975	1980	1985	1987	1991
Individual income	146.7	43.6	47.2	45.6	45.6	47.5
Corporate income	16.9	14.5	12.5	8.4	10.6	10.0
Social insurance	23.4	30.8	30.5	36.1	35.6	36.3
Excise	8.1	5.9	4.7	4.8	3.6	22.6
Estate and gift	1.9	1.6	1.2	0.9	0.7	0.5
Other	3.0	3.6	3.9	4.1	3.9	3.1
Total	100.0	100.0	100.0	100.0	100.0	100.0

Note.—Columns may not add to 100.0 due to rounding.

SUMMARY TABLE 8.—WAYS AND MEANS PROGRAM OUTLAYS COMPARED WITH TOTAL FEDERAL GOVERNMENT OUTLAYS FOR SELECTED YEARS

[In billions of dollars]

	1970	1975	1980	1985	1987 [1]	1991 [1]
Social Security (including medicare)	37.5	79.5	153.5	262.4	294.2	404.4
Unemployment compensation and trade adjustment assistance	3.3	13.3	16.1	17.7	16.9	17.7
Public assistance and social services (AFDC, SSI, title XX, EITC, and child welfare programs)	5.1	13.5	17.8	23.3	25.6	29.0
Other entitlement programs	21.9	51.5	92.0	136.8	136.8	153.0
Nondefense discretionary spending	43.6	75.6	141.2	172.1	174.3	204.0
National defense	81.7	86.5	134.0	252.7	284.0	343.9
Net interest	14.4	23.2	52.5	129.4	145.0	160.3
Offsetting receipts	−11.7	−18.4	−30.4	−48.1	−51.5	−64.4
Total	195.7	324.2	576.7	946.3	1,025.3	1,247.9

[1] Based upon CBO baseline current law projections.

SUMMARY TABLE 9.—WAYS AND MEANS PROGRAM OUTLAYS COMPARED WITH TOTAL FEDERAL OUTLAYS IN PERCENTAGE TERMS FOR SELECTED YEARS

	1970	1975	1980	1985	1987 [1]	1991 [1]
Social Security (including medicare)	19.2	24.5	26.6	27.7	28.7	32.4
Unemployment compensation and trade adjustment assistance	1.7	4.1	2.8	1.9	1.6	1.4
Public assistance and social services (AFDC, SSI, title XX, EITC, low income energy assistance and child welfare programs)	2.6	4.2	3.1	2.5	2.5	2.3
Other entitlement programs	11.1	15.8	15.9	14.5	13.3	12.3
Nondefense discretionary spending	22.3	23.3	24.5	18.2	17.0	16.3
National defense	41.7	26.7	23.2	26.7	27.7	27.6
Net interest	7.4	7.2	9.1	13.7	14.1	12.8
Offsetting receipts	−6.0	−5.7	−5.3	−5.1	−5.0	−5.2
Total	100.0	100.0	100.0	100.0	100.0	100.0
Ways and Means programs as percent of total Federal Government outlays, less interest	25.3	35.3	35.7	37.8	39.0	42.3

[1] Based on CBO baseline current law projections.

SUMMARY TABLE 10.—BASELINE BUDGET PROJECTIONS UNDER ALTERNATIVE ECONOMIC ASSUMPTIONS (BY FISCAL YEAR)

	1986	1987	1988	1989	1990	1991
	In billions of dollars					
Baseline revenues:						
High-growth alternative	784	866	971	1,086	1,228	1,403
CBO baseline projection	778	844	921	991	1,068	1,144
Low-growth alternative	777	818	828	882	948	995
Baseline outlays:						
High-growth alternative	985	1,020	1,082	1,147	1,229	1,333
CBO baseline projection	986	1,025	1,086	1,135	1,188	1,248
Low-growth alternative	987	1,042	1,111	1,153	1,185	1,232
Baseline unified budget deficit:						
High-growth alternative	202	154	111	61	1	(70)
CBO baseline projection	208	181	165	144	120	104
Low-growth alternative	210	224	282	271	238	237
	As a percent of GNP					
Baseline revenues	18.6	18.7	19.0	19.0	19.0	18.9
Baseline outlays	23.5	22.8	22.4	21.8	21.2	20.6
Baseline unified budget deficit	5.0	4.0	3.4	2.8	2.1	1.7

( ) means surplus.
Source: Congressional Budget Office.

BEST COPY AVAILABLE

SUMMARY TABLE 11.—ECONOMIC ASSUMPTIONS (BY CALENDAR YEAR)

	1986	1987	1988	1989	1990	1991
Gross national product (GNP):						
Real GNP (percent change, year to year):						
High-growth alternative	4.0	4.3	4.4	4.6	4.6	4.6
CBO baseline projection	3.2	3.1	3.3	3.5	3.5	3.2
Low-growth alternative	3.0	−0.7	−0.8	5.4	3.4	3.2
Prices:						
GNP Implicit Price deflator (percent change, year to year):						
High-growth alternative	3.7	4.3	5.0	6.1	7.4	9.1
CBO baseline projection	3.6	4.1	4.1	4.1	4.1	4.1
Low-growth alternative	3.7	4.5	2.9	3.0	2.2	2.1
Consumer Price Index (percent change, year to year):						
High-growth alternative	3.4	4.3	5.2	6.3	7.5	9.1
CBO baseline projection	3.4	4.2	4.4	4.4	4.3	4.3
Low-growth alternative	3.6	4.4	3.9	3.0	2.5	2.5
Civilian Unemployment rate: (percent, annual average):						
High-growth alternative	6.6	6.3	5.8	5.5	5.1	4.6
CBO baseline projection	6.7	6.7	6.5	6.3	6.1	6.0
Low-growth alternative	6.9	8.4	9.9	8.9	8.8	8.7
Interest rate (91-day Treasury bills, percent, annual average):						
High-growth alternative	6.5	6.1	7.5	8.5	9.7	11.1
CBO baseline projection	6.8	6.7	6.4	6.1	5.7	5.4
Low-growth alternative	7.6	7.7	5.9	5.6	4.9	4.3

Source: Congressional Budget Office.

SUMMARY TABLE 12.—CHANGES IN CBO BASELINE DEFICIT PROJECTIONS SINCE AUGUST 1985

[By fiscal year, in billions of dollars]

	1986	1987	1988	1989	1990
August 1985 baseline deficit	212.3	229.0	243.2	263.9	284.6
Changes caused by:					
1986 appropriations action [1]:					
National defense [2]	−3.6	−13.8	−28.3	−42.0	−56.0
Nondefense discretionary	−6.9	−13.7	−13.9	−14.8	−15.0
Subtotal	−10.5	−27.5	−42.2	−56.8	−71.0
Effect of 1986 sequestration [1]:					
National defense	−5.5	−9.1	−10.6	−11.4	−12.0
Nondefense discretionary	−3.5	−5.1	−5.9	−6.3	−6.7
Entitlements	−2.5	−2.1	−1.6	−1.6	−1.7
Subtotal	−11.4	−16.3	−18.1	−19.3	−20.3
Assume zero real growth in defense spending [1]		−3.2	−9.5	−18.0	−28.1
Net interest:					
Lower interest rates	−3.3	−7.5	−11.0	−18.4	−30.6
Debt service and other [3]	3.6	0.2	−5.3	−12.5	−20.4
Subtotal	0.3	−7.3	−16.3	−30.9	−51.0
Farm price supports	10.6	3.3	5.0	1.4	−3.5
Other outlays	−2.4	−5.6	−7.3	−7.7	−6.5
Lower revenues	9.5	8.9	10.1	11.0	16.0
Total changes	−4.0	−47.7	−78.2	−120.3	−164.5
February 1986 baseline deficit	208.3	181.3	164.9	143.6	120.1

[1] Excludes resulting changes in net interest.

[2] Assumes 3 percent real growth after 1986.

[3] Includes effects of lower deficits resulting from all other changes.

Source: Congressional Budget Office.

SUMMARY TABLE 13.—EFFECTS ON CBO BASELINE BUDGET PROJECTIONS OF SELECTED CHANGES IN ECONOMIC ASSUMPTIONS

[By fiscal year, in billions of dollars]

Economic variables	1986	1987	1988	1989	1990	1991
Real growth: Effect of 1-percentage-point higher annual rate beginning January 1986:						
Change in revenues	4	16	32	49	69	91
Change in budget outlays	−1	−3	−6	−12	−18	−26
Change in total deficit	−5	−19	−38	−61	−88	−118
Unemployment: Effect of 1-percentage-point lower annual rate beginning January 1986:						
Change in revenues	23	37	36	37	39	41
Change in budget outlays	−3	−7	−11	−15	−19	−22
Change in total deficit	−26	−44	−48	−52	−57	−63
Interest rates: Effect of 1-percentage-point higher annual rates beginning January 1986:						
Change in revenues	(1)	1	1	1	1	1
Changes in budget outlays	3	10	16	19	23	27
Change in total deficit	3	9	15	18	22	25
Inflation: Effect of 1-percentage-point higher annual rate beginning January 1986:						
Change in revenues	5	15	27	39	52	68
Change in budget outlays	3	14	27	39	52	65
Change in total deficit	−2	−1	(1)	−1	(1)	−3

[1] Less than $500 million.

Section 2. The Old-Age and Survivors Insurance Programs (OASI)

The old-age and survivors insurance (OASI) program provides monthly benefits to retired workers and their dependents and to survivors of insured workers. Old-age retirement benefits were provided for retired workers by the original Social Security Act of 1935, and benefits for dependents and survivors were provided by the 1939 amendments. The disability insurance (DI) program, enacted in 1956, and the hospital insurance (HI) program, enacted in 1965, are closely related to the old-age and survivors insurance program. (These related programs are discussed in the later sections.)

GENERAL

A worker builds protection under these programs through employment which is covered by the social security system. Coverage is generally compulsory. However, employees of State and local governments are covered on a voluntary group basis. Currently, over 90 percent of the nation's workforce is covered either voluntarily or mandatorily.

Contributions are made under the Federal Insurance Contributions Act (FICA, chapter 21 of the Internal Revenue Code). Contributions are based on wages and earnings up to the annual maximum taxable wage base. The employee contribution is withheld from wage and salary payments to employees and is matched by employers. Self-employed persons (SECA, chapter 2 of the Internal Revenue Code) pay contributions on their net earnings annually up to the same maximum as employees, but at a rate that is equal to the combined employee-employer tax rate. Until 1990, a general revenue credit is available to offset part of the SECA contribution.

A portion of OASDI tax revenue is credited automatically to the Old-Age and Survivors Insurance Trust Fund. In addition, the revenue derived from the taxation of a portion of Social Security retirement and survivors' benefits is deposited in the OASI trust fund. The trust fund is the source of payment for: (1) monthly benefits when the worker retires, or dies (including a financial interchange with the railroad retirement system) and (2) administrative expenses for the program. No funds are disbursed for any other purpose.

BENEFITS

Summary

Monthly cash benefits under OASI are paid as a matter of earned right to workers who are insured for benefits and to their eligible dependents and survivors. Generally, benefit amounts paid both to the insured worker and to the insured worker's dependents or survivors are related to the past earnings of the insured worker.

An individual may be entitled to benefits as a worker based on his own earnings history and also to benefits as a dependent of another worker. However, the amount of the benefit is adjusted so that, in effect, only the larger of the two benefits is paid.

In December 1985, there were 37.1 million beneficiaries in the old-age and survivors insurance and disability insurance programs who were in current-payment status. Monthly benefits paid out were $15.9 billion.

The following table summarizes various types of beneficiaries and average benefit amounts:

TABLE 1.—OASDI CASH BENEFITS IN CURRENT-PAYMENT STATUS, DECEMBER 1985

	Number (thousands)	Percent of beneficiary population	Average monthly benefit
Total monthly beneficiaries	37,058	100.0	$429
Retired workers	22,432	60.5	479
Wives and husbands of retired workers	3,069	8.3	246
Children of retired workers	457	1.2	198
Disabled workers	2,656	7.2	484
Wives and husbands of disabled workers	306	.8	133
Children of disabled workers	945	2.6	142
Widowed mothers and fathers	372	1.0	332
Surviving children	1,917	5.2	330
Widows and widowers	4,757	12.8	433
Disabled widow(er)s	106	.3	315
Parents	10	.03	378
Special age-72	32	.1	138

Source: Office of Research Statistics and International Policy, Social Security Administration.

Description of major benefit types

Child's benefit. A monthly benefit is payable to an unmarried child or eligible grandchild of a retired or disabled worker or of a deceased worker who was fully or currently insured at death if the child or grandchild is: (1) under age 18; (2) a full-time elementary or secondary student under age 19; (3) a dependent disabled person aged 18 or over whose disability began before age 22. A grandchild is eligible for benefits on a grandparent's earnings record (or that of the spouse of such worker) if he is dependent on the grandparent for at least half his support and his parents are either disabled or deceased or, where a parent is alive, the grandparent is dead and the child has been adopted by the surviving grandparent.

Lump-sum death benefit. A lump-sum payment is payable on the death of a fully or currently insured worker to the surviving spouse who was living with the deceased worker or was eligible to receive monthly cash survivor benefits upon the worker's death. If there is no eligible spouse, the lump-sum death payment is payable to any child of the deceased worker who is eligible to receive monthly cash benefits as a surviving child. If there is no surviving spouse and no children of the worker eligible for monthly benefits, then no one is eligible to receive the lump-sum death payment. The maximum amount is $255.

Minimum benefit. The minimum benefit is the smallest benefit (before actuarial reduction or earnings test reduction) payable to a worker or his survivors/dependents. In 1977, the minimum benefit was frozen at $122 per month for all workers who became disabled after 1978 and all survivors of workers who died after 1978. The new frozen minimum of $122 was to have applied to all retired workers reaching age 62 in 1984 or later. However, legislation in 1981 eliminated the minimum benefit for all persons becoming eligible for benefits in January 1982 or later (except for certain members of religious orders who have taken a vow of poverty; such persons are exempt from the new law for ten years). These persons will have their benefits computed under the regular benefit computation rules. Persons already eligible for benefits prior to January 1, 1982 will be able to continue receiving the minimum benefit.

Mother's or father's benefit. A monthly benefit is payable to a widow (widower) or surviving divorced mother (father) if: (1) the deceased worker on whose account the benefit is paid was fully or currently insured at time of death and (2) the widow (widower) or surviving divorced mother (father) has one or more entitled children of the worker in his care. These payments continue until the youngest child being cared for reaches age 16.

Parent's benefit. This is the monthly benefit payable to a dependent parent, age 62 or over, of a deceased fully insured worker.

Retired-worker (old-age) benefit. This is the monthly benefit payable to a retired worker aged 62 or over who is fully insured or to a person entitled under the transitional insured-status provision in the law.

"Special age-72" benefit. This is the monthly benefit payable to certain persons born before January 2, 1900, who do not have sufficient quarters of coverage to qualify for a retired-worker benefit under either the full or the transitional insured-status provisions. The benefit is payable only for months in which the individual is a resident of the 50 States or the District of Columbia and receives no public assistance money payments or SSI payments. It is reduced by the amount of any government pension (except workers' compensation and veterans' service-connected compensation) that the individual is receiving or is eligible to receive. When husband and wife are both eligible for these benefits, a full benefit is paid to each spouse.

Special minimum benefit (OASDI). This is a benefit based upon an alternative PIA which is not based on the worker's average monthly wage or average indexed monthly earnings but on his/her length (years) of covered employment. It is designed to help those who worked in covered employment for many years but had low earnings. The amount of the special minimum is computed by multiplying the number of years of coverage in excess of 10 and up to 30 by $9 for monthly benefits before 1979 and by $11.50 for monthly benefits payable after 1978. The number of years of coverage equals the number, not to exceed 14, obtained by dividing total creditable wages in 1937–50 by $900, plus the number of years after 1950 for which the worker is credited with at least 25 percent of the annual maximum taxable earnings. For this purpose for years after 1978, annual maximum taxable earnings are based on only the automatic adjustment provisions. The special minimum benefit is not subject to the delayed-retirement-credit provisions. Beginning in 1979, the automatic cost-of-living increases apply to the special minimum benefits.

Spouse's benefit. This is the monthly benefit payable to a spouse or divorced spouse of a retired or disabled worker under one of the following conditions: (1) spouse is aged 62 or older or is caring for one or more entitled children of the worker who have not achieved age 16; (2) divorced spouse is aged 62 or older, is not married, and the marriage to the worker had lasted 10 years before the divorce became final; or (3) wife was born before January 2, 1897, and husband is transitionally insured.

Widow's or widower's benefit. These are monthly benefits payable to: (1) a widow(er) or surviving divorced spouse of a worker fully insured at the time of death if he or she is unmarried, or remarriage occurred after the widow(er)'s first eligibility for benefits; and (a) is aged 60 or older or (b) aged 50–59 and has been disabled throughout a waiting period of 5 consecutive calendar months that began no later than 7 years after the month the worker dies or after the end of her entitlement to benefits as a widowed mother; or (2) a widow of a transitionally insured worker if she was born before January 2, 1897.

BENEFIT ELIGIBILITY: INSURED STATUS

Benefits can only be paid to workers, their dependents or survivors if the worker is "insured" for these benefits. Insured status is measured in terms of "quarters of coverage."

TABLE 2.—AMOUNT OF COVERED EARNINGS NEEDED TO EARN ONE QUARTER OF COVERAGE SINCE 1977

1978	$250
1979	260
1980	290
1981	310
1982	340
1983	370
1984	390
1985	410
1986	440
1987	[1] 450
1988	[1] 470
1989	[1] 500
1990	[1] 530

[1] 1985 OASDI Trustee's Report (II-B projection).

Prior to 1978, one quarter of coverage was earned for each calendar quarter in which a worker was paid $50 or more in wages for covered employment (except for agricultural labor). Since the beginning of 1978 the crediting of quarters of coverage has been on an annual rather than a quarterly basis. In 1978, a worker earned one quarter of coverage, up to a total of four, for each $250 of annual earnings reported from covered employment or self-employment. The amount of annual earnings is subject to annual automatic increases, effective in January, in proportion to increases in average wages in the economy.

For the purpose of the OASI program, there are two types of insured status: "fully insured" and "currently insured." Workers are fully insured for benefits for themselves and for their families if they have one quarter of coverage (earned at any time after 1936) for every four quarters elapsing after 1950, or the year of reaching age 21, if later, up to the year in which they reach age 62. Fully insured status is required for eligibility for all types of benefits except survivor benefits. A person must have at least six quarters of coverage to be fully insured. A person with 40 quarters of coverage is fully insured for life.

Workers are currently insured if they have six quarters of coverage during the thirteen calendar quarters ending with the quarter in which they died. Currently insured status by itself provides that the worker's surviving family members are eligible for child's, mother's, father's and lump-sum survivor benefits.

Table 3 indicates the type of insured status which is required for the various monthly benefit categories.

TABLE 3.—INSURED STATUS REQUIREMENTS FOR VARIOUS MAJOR BENEFIT CATEGORIES

Type of benefit	Basic eligibility requirements
Retirement	Fully insured.
Dependents:	
Wives, husbands	Worker entitled.
Mothers, fathers, children, grandchildren	Worker entitled.
Survivors:	
Dependent parents—age 62	Worker fully insured.
Widows, widowers	Worker fully insured.
Mothers, fathers, children	Worker fully or currently insured.
Lump-sum death	Worker fully or currently insured.

BENEFIT COMPUTATION

The amount of a monthly benefit award is determined by first computing an insured worker's average monthly wage (AMW) or—in the case of most workers who attain age 62, become disabled, or die after 1978—average indexed monthly earnings (AIME). The AMW is used in computing benefits under the old (coupled) benefit formula, and the AIME is used in computing benefits under the new (decoupled) benefit formula enacted in 1977. The AMW or AIME is linked (by a table in the law or by a formula, respectively) to the monthly retirement benefit payable at that worker's normal retirement age (NRA). This amount is called the primary insurance amount (PIA). Benefits for dependents and survivors are calculated as a percentage of the insured worker's PIA. The calculated amounts may be subject to minimum levels, and all benefits are subject to maximum limits which are stated in the law. Benefits payable to workers, spouses, widows and widowers who choose to retire before their normal retirement age are subject to an actuarial reduction. Benefits payable to workers, spouses, widows and widowers who choose to retire after their normal retirement age are subject to increase through the delayed retirement credit.

The normal retirement age [2]

The normal retirement age is the earliest age at which unreduced retirement benefits can be received. The normal retirement age will be gradually increased from age 65 to age 67 beginning in 2000. For persons attaining age 62 in 2000, the normal retirement age will be increased by 2 months—to age 65 and 2 months. In each succeeding year, the normal retirement age will be increased by 2 additional months until it reaches age 66 for persons attaining age 62 in 2005. The normal retirement age will then remain at age 66 for persons attaining age 62 through 2016. Beginning with persons attaining age 62 in 2017, the normal retirement age will again increase by 2 months each year, until it reaches age 67 for persons attaining age 62 in 2022 and later. (See table 4 for the exact schedule in increases in the normal retirement age.)

Average indexed monthly earnings (AIME)

The AIME is a dollar amount which represents the average monthly earnings, adjusted for the growth in average wages in the economy, which was received by the worker during his covered employment. Indexing creates an earnings record that reflects the value of the individual's earnings relative to national average earnings in the indexing year. The indexing year is the second year before the year in which the worker attains age 62, becomes disabled, or dies. Earnings after the indexing year are counted at their nominal value.

There are four steps in the calculation of the AIME: (1) indexing the worker's earnings for each year after 1950 by dividing the worker's posted earnings for the year being indexed by the average wages of all workers in that same year and multiplying this result by the average earnings in the indexing year, (2) determining the number of computation years—the number of years after 1950 (or the year of attainment of age 21, if later) and up to the year worker attains age 62, becomes disabled, or dies, minus dropout years, generally 5 (minimum number of computation years is 2); (3) selecting the actual computation years, based on highest earnings, from any year after 1950; and (4) dividing the sum of earnings in the computation years by the total number of months in the computation years.

These computations are illustrated in table 5 for three different workers. The actual earnings for the three workers are shown in the first three columns. These are multiplied by the indexing factor (column 4) to arrive at indexed earnings (last 3 columns of table 4).

---

[2] Changes in the normal retirement are a result of the Social Security Amendments of 1983 (P.L. 98-21).

BEST COPY AVAILABLE

The indexing factor for 1951 is average wages when an individual turned 60 ($16,135) divided by average wages for 1951 ($2,799). The lowest 5 years of indexed earnings may be dropped. For example, a lifelong full-time worker earning the minimum wage would be able to drop earnings in 1972, 1973, 1983, 1984, and 1985, and would have total indexed earnings of $256,794 (see table 5). Dividing this by the number of months in the computation period (30 years×12 months=360 months) results in an average indexed monthly earnings (AIME) of $713. The corresponding AIME's for the average and maximum earners are $1,345 and $2,077.

TABLE 4.—INCREASES IN NORMAL RETIREMENT AGE FOR PERSONS REACHING AGE 62 IN EACH YEAR 1986 AND LATER

Year of birth	Year of attainment of age 62	Normal retirement age (NRA)
1924	1986	65.
1925	1987	65.
1926	1988	65.
1927	1989	65.
1928	1990	65.
1929	1991	65.
1930	1992	65.
1931	1993	65.
1932	1994	65.
1933	1995	65.
1934	1996	65.
1935	1997	65.
1936	1998	65.
1937	1999	65.
1938	2000	65, 2 mo.
1939	2001	65, 4 mo.
1940	2002	65, 6 mo.
1941	2003	65, 8 mo.
1942	2004	65, 10 mo.
1943–54	2005–16	66
1955	2017	66, 2 mo.
1956	2018	66, 4 mo.
1957	2019	66, 6 mo.
1958	2020	66, 8 mo.
1959	2021	66, 10 mo.
1960 and later	2022 and later	67.

TABLE 5.—EARNINGS HISTORIES FOR HYPOTHETICAL WORKERS AGE 62 IN 1986

[Rounded to the nearest dollar]

Year	Nominal earnings			Indexing factor	Indexed earnings		
	Minimum [1]	Average [2]	Maximum [3]		Minimum	Average	Maximum
1951	1,560	2,799	3,600	5.7643	8,992	[4]16,135	20,751
1952	1,560	2,973	3,600	5.4266	8,466	[4]16,135	19,536
1953	1,560	3,139	3,600	5.1395	8,018	[4]16,135	18,502
1954	1,560	3,156	3,600	5.1131	7,976	[4]16,135	[4]18,407
1955	1,560	3,301	4,200	4.8873	7,624	[4]16,135	20,527
1956	1,993	3,532	4,200	4.5678	9,104	16,135	19,185
1957	2,080	3,642	4,200	4.4306	9,216	16,135	18,609
1958	2,080	3,674	4,200	4.3919	9,135	16,135	18,446
1959	2,080	3,856	4,800	4.1846	8,704	16,135	20,086
1960	2,080	4,007	4,800	4.0266	8,375	16,135	19,328
1961	2,184	4,087	4,800	3.9481	8,623	16,135	18,951
1962	2,392	4,291	4,800	3.7599	8,994	16,135	[4]18,047
1963	2,461	4,397	4,800	3.6699	9,032	16,135	[4]17,615
1964	2,600	4,576	4,800	3.5258	9.167	16,135	[4]16,924
1965	2,600	4,659	4,800	3.4634	9,005	16,135	[4]16,624
1966	2,600	4,938	6,600	3.2673	8,495	16,135	21,564
1967	2,886	5,213	6,600	3.0949	8,932	16,135	20,426
1968	3,293	5,572	7,800	2.8959	9,536	16,135	22,588
1969	3,328	5,894	7,800	2.7377	9,111	16,135	21,354
1970	3,328	6,186	7,800	2.6082	8,680	16,135	20,344
1971	3,328	6,497	7,800	2.4834	8,265	16,135	19,371
1972	3,328	7,134	9,000	2.2618	[4]7,527	16,135	20,356
1973	3,328	7,580	10,800	2.1286	[4]7,084	16,135	22,989
1974	3,883	8,031	13,200	2.0092	7,802	15,135	26,521
1975	4,368	8,631	14,100	1.8694	8,166	16,135	26,359
1976	4,784	9,226	15,300	1.7488	8,366	16,135	26,756
1977	4,784	9,779	16,500	1.6499	7,893	16,135	27,223
1978	5,512	10,556	17,700	1.5285	8,425	16,135	27,055
1979	6,032	11,479	22,900	1.4056	8,478	16,135	32,187
1980	6,448	12,513	25,900	1.2895	8,314	16,135	33,396
1981	6,968	13,773	29,700	1.1715	8,163	16,135	34,973
1982	6,968	14,531	32,400	1.1104	7,737	16,135	35,976
1983	6,968	15,239	35,700	1.0588	[4] 7,378	16,135	37,799
1984	6,968	16,135	37,800	1.0000	[4] 6,968	16,135	37,800
1985	6,968	16,595	39,600	1.0000	[4] 6,968	16,595	39,600

[1] Worker with annual earnings equal to annualized Federal minimum wage.

[2] Worker with annual earnings equal to the SSA average wage index.

[3] Worker with annual earnings equal to the social security taxable maximum earnings.

[4] Dropout years.

[5] Estimate based on Alternative II–B assumptions in 1985 Trustees Report.

BEST COPY AVAILABLE

Average monthly wage (AMW)

The AMW, which is used in computing benefits under the old (coupled) benefit formula, is computed by: (1) determining the number of computations years—the number of years after 1950 (or the year of attainment of age 21, if later) and up to the year the worker attains age 62 (age 65 for men born before January 2, 1911) and the later of age 62 or the 1975 for men born after January 1, 1911, onset of disability or death, minus dropout years, generally 5 (minimum number of computation years is 2); (2) selecting the actual computation years, based on highest nonindexed earnings, for any year after 1950; and (3) dividing the sum of nonindexed earnings in the computation years by the total number of months in the computation years.

Primary insurance amount (PIA)

The PIA is the monthly benefit amount that would be payable to a retired worker who begins to receive benefits at his nomal retirement age and is the amount which is used as a base for computing all benefits which are payable on the basis of that worker's earnings record.

The method of determining the PIA depends on whether an AIME or an AMW was computed for the worker. (This, of course, is determined on the basis of the worker's date of birth.) If an AMW has been computed for the worker, the PIA is determined through reference to wage tables which are updated and published annually.

Under the transitional guarantee provision of the 1977 amendments (which is applicable only to workers who attain age 62 in 1979–83) if the PIA computed under the special guarantee is higher than under the AIME method, benefits are determined on the basis of the frozen 1978 benefit table.

In cases where an AIME has been computed, the PIA is determined by applying the "primary benefit formula" to the AIME. For a worker reaching age 62 in 1986, the PIA equals 90 percent of the first $297 of AIME, 32 percent of the next $1,493 of AIME, and 15 percent of the AIME above $1,790. Applying this formula to the AIME's of the three example workers results in PIA's of $400 for the minimum-wage worker, $602 for the average-wage worker, and $788 for the maximum-wage worker. The numbers $297 and $1,790 are often referred to as "bend points." These are adjusted each year by increase in average wages.

After the year of initial eligibility (age 62 for retired worker benefits), the PIA is increased each year for the increase in the Consumer Price Index (CPI). Thus, the PIA's of $400, $602 and $788 would have been for January through November 1986, and will be increased by the cost-of-living adjustment that will increase the December 1986 benefits (received in January 1987) under current law.

BENEFIT AMOUNTS

The PIA is the dollar amount that is payable to a worker who begins to receive benefits at that worker's normal retirement age. However, the actual benefit payable may be an amount different than the PIA.

Workers attaining age 62 before 2000 who retire before age 65 will receive a benefit with an actuarial reduction. Retirement after age 65 results in an actuarial increase in the benefit payable.

When the normal retirement age begins to increase in the year 2000, the minimum age of eligibility for reduced benefits will remain unchanged at age 62 (age 60 for widows and widowers). However, there will be corresponding increases in the amount of reduction for early retirement. The amount of reduction will be ⁵⁄₉ of 1 percent for each of first 36 months of early retirement (as under present law), and ⁵⁄₁₂ of 1 percent for each month in excess of 36. Thus, for persons attaining age 62 during 2005–16, for whom the normal retirement age will be 66, the reduced benefit payable at age 62 will be 75 percent of the PIA. For persons attaining age 62 in 2022 and later, for whom the normal retirement age will be 67, the reduced benefit payable at age 62 will be 70 percent of the PIA. (See table 6.) There will be no increase in the maximum reduction for widow(er)s.

TABLE 6.—SCHEDULE OF BENEFITS, AS A PERCENTAGE OF PIA, PAYABLE AT SELECTED AGES, FOR PERSONS REACHING AGE 62 IN EACH YEAR 1986 AND LATER

Year of attainment of age 62	Benefit, as a percentage of PIA, beginning at age—		
	62	65	67
1986	80	100	106
1987	80	100	107
1988	80	100	107
1989	80	100	108
1990	80	100	108
1991	80	100	109
1992	80	100	109
1993	80	100	110
1994	80	100	110
1995	80	100	111
1996	80	100	111
1997	80	100	112
1998	80	100	112
1999	80	100	113
2000	79⅙	98⁸⁄₉	111¹¹⁄₁₂
2001	78⅓	97⁷⁄₉	111⅔
2002	77½	96⅔	110½
2003	76⅔	95⁵⁄₉	110
2004	75⅚	94⁴⁄₉	108¾
2005–16	75	93⅓	108
2017	74⅙	92²⁄₉	106⅔
2018	73⅓	91⅑	105⅓
2019	72½	90	104
2020	71⅔	88⁸⁄₉	102⅔
2021	70⅚	87⁷⁄₉	101½
2022 and later	70	86⅔	100

Auxiliary benefit amounts are also based on the worker's PIA. Table 7 lists major types of benefit with the percent of the insured worker's PIA which is paid.

TABLE 7.—PERCENTAGE OF PRIMARY INSURANCE AMOUNT (PIA) PAID FOR DEPENDENT'S AND SURVIVOR'S BENEFITS

Type of monthly benefit	Percent of PIA
Dependents: [1]	
Wives, husbands—age 65	[3] 50.0
Mothers, fathers, children, grandchildren	50.0
Survivors: [1]	
Widows, widowers—age 65 [2]	[3] 100.0
Dependent parent—age 62	82.5
Widows, widowers, disabled—age 50	71.5
Mothers fathers, children	75.0

[1] Subject to maximum family benefit limitation.

[2] Subject to general limitation that survivor cannot get a higher benefit than deceased worker would be getting if alive.

[3] These percentages decrease as the normal retirement age increases beginning in the year 2000.

BENEFIT REDUCTION AND INCREASE

Social Security benefits may be reduced, withheld or increased for several reasons, chiefly on account of early retirement, delayed retirement and, on account of earnings in excess of the exempt amount provided in the law ($7,800 in 1986 for beneficiaries between age 65 and 70). In addition, there is an overall limit on the total amount of benefits which can be paid at one time on the basis of any one earnings record.

Actuarial reduction. This is the reduction in monthly benefit amount payable: (a) on entitlement at ages 62–64 if the beneficiary is a retired worker, a spouse of a retired or disabled worker (with entitlement not dependent on having a child beneficiary in their care), or a divorced spouse; (b) on entitlement at age 60–64 if the beneficiary is a widow, widower, or a surviving divorced spouse; or (c) on entitlement, in case of disability, at ages 50–59 if the beneficiary is a widow, widower, or surviving divorced spouse.

At the time of award, the following reductions in benefit amount are made for:

A retired-worker beneficiary—$\frac{5}{9}$ of 1 percent for each month of entitlement before age 65 (maximum reduction of 20 percent);

A wife or husband beneficiary—$\frac{25}{36}$ of 1 percent for each month of entitlement before age 65 (maximum reduction of 25 percent);

A widow including surviving divorced spouse—$\frac{19}{40}$ of 1 percent for each month of entitlement between age 60 (maximum reduction of 28.5 percent) and age 65. Disabled widow(er)s ages 50 to 59 receive 71.5 percent of the PIA.

The benefit continues to be paid at a reduced rate even after age 65, except that the reduced rate is refigured at age 65 for all beneficiaries and also at age 62 for a widow, widower, and a surviving divorced spouse to omit months for which the reduced benefits was not paid and to take into account any additional earnings. Data on benefit awards to retired workers for 1977 indicates that 67 percent of all such awards were actuarially reduced benefits (62 percent for men, 74 percent for women).

Delayed retirement credit. A credit due a worker for delayed retirement after attaining age 65 for each month the worker: (1) was fully insured, (2) had attained age 65 but was not yet age 70, and (3) did not receive benefits because the worker had not filed an application or was working. Each monthly credit serves as a basis for increasing the monthly benefit (unless the benefit is based on a special minimum PIA) by 1/12 of 1 percent for workers who attained age 62 before 1979 and by ¼ of 1 percent for workers attaining age 62 after 1978. The increase is applicable to the worker's monthly benefits amount but not to his PIA. Hence, auxiliary benefits are generally not affected. The exception is that a surviving spouse (including divorced) receiving widow(er)'s benefits is entitled, for months after May 1978 to the same increase that had been applied to the benefit of the deceased worker or for which the worker was eligible for at the time of death.

As a result of the Social Security Amendments of 1983, beginning with workers who attain age 65 in 1990, the increment for delaying retirement past the normal retirement age will increase by ½ of 1 percent every second year, from 3 percent per year of delayed retirement for workers attaining age 65 in 1982–89, until reaching 8 percent per year of delayed retirement for workers attaining normal retirement age (age 66) after 2008.

Maximum family benefit. The maximum monthly amount that can be paid on a worker's earnings record varies with his PIA. For benefits payable on the earnings records of retired and deceased workers, the maximum varies between 150 and 188 percent of the PIA. No more than the established maximum can be paid to a family regardless of the number of beneficiaries entitled on that earnings record. The family maximum is computed by adding fixed percentages of dollar amounts which are part of the PIA.

150 percent of the first $379 PIA, plus;
272 percent of PIA from $379 through $548, plus;
134 percent of PIA from $548 through $714, plus;
175 percent of PIA over $714.

The dollar amounts in this benefit formula (i.e. the "bend points") are adjusted annually by the same index used to update the bend points in the primary benefit formula.

Whenever the total of the individual monthly benefits payable to all the beneficiaries entitled on one earning record exceeds the maximum, each dependent's or survivor's benefit is proportionately reduced to bring the total within the maximum.

In computing the total of the individual monthly benefits for entitlements based on a single earnings record, a benefit payable to a divorced spouse or to a surviving divorced wife is not included.

Withholding. This is the suspension of benefit payments until the conditions causing deductions are known to have ended. Reasons for withholding benefits include: (1) earnings by a beneficiary (or any dependent drawing benefits on his earnings record) under age 70 from either covered or noncovered employment which exceeds the annual allowable amount (this is known as the "retirement test"); (2) failure of a wife under age 62 or mother or father beneficiary to have an entitled child in her care; (3) for special age-72 beneficiaries, receipt of public assistance or supplemental security income (SSI) payments or offsetting government pensions; (4) the payee is not determined; and (5) administrative reasons.

Under the "retirement test" the maximum allowable annual earnings without benefits being withheld is $7,800 in 1986 for beneficiaries aged 65 and over ($5,760 for beneficiaries under age 65). This amount is known as the "exempt amount." Benefits are reduced by $1 in benefits for every $2 in annual earnings above the exempt amount. The exempt amount is indexed to rises in the average wage in the economy. Each year that an automatic benefit increase occurs, the exempt sum of earnings is adjusted for wage increases, effective January 1. If average wages in the economy fall in a particular year, the exempt amount would not be lowered. The law provides that it may not be reduced. According to the 1985 Social Security Trustee's Report, the annual "exempt amounts" for the next 4 calendar years are projected to be as follows:

	Under age 65	Age 65 through 69
1986	5,760	7,800
1987	[1] 5,880	[1] 7,920
1988	[1] 6,240	[1] 8,400
1989	[1] 6,600	[1] 8,880
1990	[1] 6,960	[1] 9,360

[1] Estimated.

Source: 1985 OASI Trustee's Report, Alternative II-B.

Beginning in 1990, the benefit withholding rate under the retirement test will be reduced from $1 for each $2 of earnings over the annual exempt amount to $1 for each $3 of excess earnings, for beneficiaries who have reached the normal retirement age (age 65 in 1990-99). When the normal retirement age begins to increase in 2000, the age at which the reduced withholding rate will apply will also increase.

As a result of a legislative change in the Deficit Reduction Act of 1984, the Social Security Administration has begun to request earlier reports of earnings from beneficiaries who are most likely to have earnings in excess of the exempt amount. These beneficiaries may thus have their benefits ceased in the actual year of excess earnings, rather than receiving overpayments which must then be recouped later.

Some of the administrative reasons for withholding benefits are: (a) refusal of beneficiary to accept checks for personal reasons; (b) beneficiary's residence in certain foreign countries; and (c) under certain conditions, an alien beneficiary's residence outside the United States for more than 6 full consecutive calendar months.

Suspension of monthly benefit payments does not affect eligibility for hospital insurance benefits.

AUTOMATIC BENEFIT ADJUSTMENTS

If the cost-of-living as measured by the Bureau of Labor Statistics' Consumer Price Index (CPI) rises by 3 percent or more since the last benefit increase, a benefit increase for social security and SSI recipients is triggered.

Prior to 1984, the change in the CPI was measured from the first calendar quarter of the base year to the first calendar quarter of the current year. However, the benefit increases in 1984 and later years will be based on the CPI increase from the third quarter of the base year through the third quarter of the year in which the benefit increase becomes effective. In addition, benefit increases beginning with the January 1986 check *are* based upon a price index in which the housing component is measured on a rental equivalence basis.

If the CPI shows a 3 percent or more increase, a benefit increase of equivalent amount will be due for the month of December following the end of the measuring period. The CPI for the two calendar quarters used to measure the change represents the straight average of the CPI for each of the 3 months in both quarters.

However, if the assets of the combined OASI and DI trust funds are below a certain reserve ratio (15 percent for 1984 through 1988, and 20 thereafter) and wages increase at a rate lower than inflation, the automatic benefit increase will be based on wage growth rather than inflation. (See Appendix I for a more detailed discussion of this provision.)

The Secretary of Health and Human Services (HHS) is required by law to publish the amount of the increase in the Federal Register within 45 days after the close of the measuring period. The benefit increase is effective in December and first appears in January benefit checks, i.e., 3 months after the close of the measuring period. (Prior to 1983 the benefit adjustment was effective in June and payable in July.)

Since a benefit increase was effective in 1984, that year became the base for the 1985 benefit increases. The CPI for the third quarter of 1984 was 310.0 This was the arithmetical average of the CPI for July, August and September, 1984.

Month in 1984:	CPI
July	307.5
August	310.3

BEST COPY AVAILABLE

September	312.1
Total	929.9

The average CPI for the 3rd quarter of 1984 is thus:

929.9/3=310.0

2. The CPI for the third quarter of 1985 was 319.7. This was the arithmetical average of the CPI for July, August and September, 1985.

Month in 1985:	
July	319.1
August	319.6
September	320.5
Total	959.2

The average CPI for the 3rd quarter of 1985 is thus:

959.2/3=319.7

3. The percentage increase in the CPI from the third quarter of 1984 to the third quarter of 1985 is:

(319.7−310.0)/310.0=3.1 percent

The benefit increase is rounded to the nearest 0.1 percent. It applies to all types of beneficiaries.

TAXATION OF SOCIAL SECURITY (OASDI) BENEFITS FOR HIGHER-INCOME PERSONS

Beginning in 1984, as much as one-half of OASDI benefits (and railroad retirement tier 1 benefits) are included in taxable income for taxpayers with incomes above certain base amounts. The sum of a taxpayer's (1) adjusted gross income, (2) tax-free interest income and (3) one-half of OASDI benefits is compared to a base amount of $25,000 for a single taxpayer, or $32,000 for a married couple filing a joint tax return. If the sum exceeds the base amount, the amount of benefits to be included in taxable income is the lesser of:

(a) one-half of the excess of such sum over the base amount, or
(b) one-half of the amount of benefits received.

The revenue raised by this taxation of benefits is automatically transferred to the OASDI Trusts Funds.

The following table contains several examples which illustrate the taxation of Social Security benefits.

EXAMPLES

	A	B	C	D	E
(1) Type of taxpayer	Single	Single	Couple	Couple	Couple
(2) Adjusted gross income	16,000	23,000	24,000	28,000	50,000

BEST COPY AVAILABLE

EXAMPLES—Continued

	A	B	C	D	E
(3) Tax-free interest income	0	0	0	3,000	2,000
(4) Social Security	$4,000	$8,000	$3,000	$6,000	$10,000
(5) Sum of lines (2) plus (3) plus one-half of (4).	18,000	27,000	25,500	34,000	57,000
(6) Base amount	25,000	25,000	32,000	32,000	32,000
(7) Excess amount (line (5) minus (6)).	−7,000	2,000	−6,500	2,000	25,000
(8) Amount of Social Security which is taxed. If line (7) is positive, lesser of one-half of lines (7) or (2). If line (7) is zero or negative, enter 0.	0	1,000	0	1,000	5,000

LEGISLATIVE CHANGES MADE IN THE 97TH CONGRESS

The 97th Congress made numerous changes in the old-age and survivors insurance program. The major changes were included in the Omnibus Budget Reconciliation Act (Public Law 97-35). Table 8 lists these changes and contains the most recent Congressional Budget Office estimates of their budgetary impact.

TABLE 8.—CONGRESSIONAL BUDGET OFFICE ESTIMATES FOR LEGISLATIVE CHANGES MADE IN OASI DURING CALENDAR YEAR 1981 (JANUARY 1982 ESTIMATES)

[In millions of dollars]

	Fiscal year—		
	1982	1983	1984
Elimination of minimum benefit for future beneficiaries	−81	−180	−210
Elimination of benefits for postsecondary students	−567	−1,580	−2,033
Restrictions on payment of lump-sum death benefits	−200	−210	−215
Modification of month of initial entitlement for certain workers and their dependents	−190	−220	−240
Temporary extension of earnings limitation to include all persons aged less than 72	−380	−120	0
Termination of mother's and father's benefits when youngest child attains age 16	−30	−88	−496
Modification of rounding rules	−79	−272	−314
Cost reimbursement for provision of earnings information	−1	−2	−5
Revision of reimbursements for vocational rehabilitation services	−87	−86	−73
Modify workmen's compensation offset to: (1) Apply offset to certain other public disability benefits-megacap; (2) apply offset to benefits of workers aged 62 to 64; and (3) begin offset in first month of dual benefit payment	−87	−122	−156

TABLE 8.—CONGRESSIONAL BUDGET OFFICE ESTIMATES FOR LEGISLATIVE CHANGES MADE IN OASI DURING CALENDAR YEAR 1981 (JANUARY 1982 ESTIMATES)—Continued

[In millions of dollars]

	Fiscal year—		
	1982	1983	1984
Extension of coverage to first 6 months of sick pay (revenue increase)	−534	−762	−828
Total OASI	−2,236	−3,642	−4,570

LEGISLATIVE CHANGES MADE IN THE 98TH CONGRESS

The 98th Congress made extensive changes in the old-age and survivors insurance program in the Social Security Amendments of 1983 (Public Law 98–21), enacted to restore the financial status of the Social Security trust funds. Table 9 lists the major changes made in those amendments and contains the Congressional Budget Office estimates made in January 1984 of their budgetary impact. The provision which taxes benefits is shown under outlays in table 9. This provision increases revenues, but for purposes of this table is listed under "outlays" to illustrate the impact upon beneficiaries. In keeping with that convention, the provision is not listed under "revenues". As part of the Social Security Amendments, SSI benefits were increased. See Section 11 for an estimate of that impact. One minor provision was enacted during 1984 concerning the administration of the earnings test.

TABLE 9.—CONGRESSIONAL BUDGET OFFICE OUTLAY AND TREASURY DEPARTMENT REVENUE ESTIMATES FOR LEGISLATIVE CHANGES MADE IN OASI DURING CALENDAR YEAR 1983 [1]

[— (minus) means decrease in outlays; in millions of dollars]

Provision	Fiscal year					
	1983	1984	1985	1986	1987	1988
	Outlays (beneficiary impact)					
Delay benefit increases 6 months:						
OASDI	−1,446	−3,218	−3,395	−4,192	−4,468	−4,841
SSI	−85	−115	−140	−165	−165	−205
Veterans' pension	−21	−52	−56	−68	−72	−76
Food stamp offset	0	32	37	48	51	56
Total	−1,552	−3,353	−3,554	−4,377	−4,654	−5,066
Continue benefits on remarriage	0	14	22	23	24	26

TABLE 9.—CONGRESSIONAL BUDGET OFFICE OUTLAY AND TREASURY DEPARTMENT REVENUE ESTIMATES FOR LEGISLATIVE CHANGES MADE IN OASI DURING CALENDAR YEAR 1983 [1]—Continued

[— (minus) means decrease in outlays; in millions of dollars]

Provision	Fiscal year					
	1983	1984	1985	1986	1987	1988
Modify indexing of deferred survivors' benefits	0	0	0	0	1	3
Raise disabled widow(er)'s benefits to 71.5 percent of PIA	0	90	125	130	135	140
Pay divorced spouses whether or not worker has retired	0	0	6	11	12	12
Replace 90 percent factor for individuals receiving pensions from noncovered employment	0	0	0	−2	−5	−20
Offset spouses benefits by up to ⅔ of noncovered Government pension	0	1	2	4	6	9
Tax one-half of benefits for high income beneficiaries [1]	0	−894	−3,167	−3,769	−4,495	−5,350
Miscellaneous and technical changes	2	10	−26	−11	−13	−31
Total	−1,550	−4,132	−6,592	−7,991	−8,989	−10,277
Revenues (taxpayer impact)						
Prohibit State and local withdrawal		87	311	564	818	1,107
Include all nonprofit institutions		1,435	2,398	2,896	3,366	3,920
Include new Federal employees	64		181	346	556	765
Accelerate 1985 FICA/RRTA tax rate increased to 1984:						
Increase in rate		6,542	2,402			
Employee tax credit		−3,311	−1,213			
Total		3,231	1,189			

TABLE 9.—CONGRESSIONAL BUDGET OFFICE OUTLAY AND TREASURY DEPARTMENT REVENUE ESTIMATES FOR LEGISLATIVE CHANGES MADE IN OASI DURING CALENDAR YEAR 1983 [1]—Continued

[— (minus) means decrease in outlays; in millions of dollars]

Provision	Fiscal year					
	1983	1984	1985	1986	1987	1988
Increase FICA/RRTA tax rate to 6.06 percent on Jan. 1, 1988						10,963
Reduced income tax receipts due to increased employer taxes		−1,027	−418	−355	−413	−1,855
Increase SECA tax rate:						
Rate increase		1,427	4,257	4,237	4,555	5,068
Tax credit		−829	−2,427	−2,198	−2,120	−2,232
Total		598	1,830	2,039	2,435	2,836
State and local government deposit schedule		747	54	56	62	67
Total		5,135	5,545	5,546	6,824	17,803

January 1984 estimates.

CHARACTERISTICS OF BENEFICIARY POPULATION

Tables 10 through 11 provide detailed information on the numbers of various OASI beneficiaries, the average amount of monthly benefits by type of beneficiary for new awards and for all beneficiaries currently receiving payments. More detailed information is shown in table 11 for December 1984.

TABLE 10.—OASI CASH BENEFITS: AVERAGE AMOUNT OF MONTHLY BENEFITS BY TYPE AND NUMBER OF BENEFICIARIES, CURRENT PAYMENT STATUS, DECEMBER 1985, AND NEW AWARDS, 1985

	Current payment		New awards	
	Number (in thousands)	Average payment	Number (in thousands)	Average payment
Retired workers	22,432	$478.62	1,690	$445.12
Wives and husbands of retired workers	3,069	246.28	357	221.38

TABLE 10.—OASI CASH BENEFITS: AVERAGE AMOUNT OF MONTHLY BENEFITS BY TYPE AND NUMBER OF BENEFICIARIES, CURRENT PAYMENT STATUS, DECEMBER 1985, AND NEW AWARDS, 1985—Continued

	Current payment		New awards	
	Number (in thousands)	Average payment	Number (in thousands)	Average payment
Children of retired workers	457	197.91	128	197.01
Surviving children	1,917	330.46	333	318.56
Widowed mothers and fathers	372	332.45	72	315.75
Widows and widowers	4,757	433.19	485	437.50
Parents	10	378.23	0.4	381.34

Source: Office of Research, Statistics, and International Policy, Social Security Administration.

TABLE 11.—NUMBER OF PERSONS RECEIVING VARIOUS TYPES OF OASDI BENEFITS BY AGE, SEX, AND AVERAGE MONTHLY BENEFIT AMOUNTS, DECEMBER 1984

Benefits by age, sex, and average monthly benefit amount	Number (thousands)	Percent of total beneficiaries	Average monthly benefit	Percent of total benefits
Retired workers:				
Men:				
62 to 64	1,253	3.4	$444.80	3.7
65 to 69	3,511	9.6	544.70	12.7
70 to 79	4,998	13.7	534.20	17.8
80 to 89	1,602	4.4	476.30	5.1
90 and over	208	.6	426.60	.6
Total, retired men	11,573	31.7	517.80	39.9
Women:				
62 to 64	1,150	3.2	291.60	2.2
65 to 69	2,813	7.7	391.20	7.3
70 to 79	4,320	11.8	426.40	12.3
80 to 89	1,761	4.8	408.30	4.8
90 and over	290	.8	347.40	.7
Total, retired women	10,334	28.3	396.50	27.3
Total, retired workers	21,906	60.1	460.60	67.2
Disabled workers:				
Men:				
Under 50	537	1.5	495.80	1.8
50 to 59	612	1.7	520.20	2.1
60 to 61	219	.6	534.10	.8
62 to 64	379	1.0	542.90	1.4
Total, disabled men	1,748	4.8	519.00	6.0

TABLE 11.—NUMBER OF PERSONS RECEIVING VARIOUS TYPES OF OASDI BENEFITS BY AGE, SEX, AND AVERAGE MONTHLY BENEFIT AMOUNTS, DECEMBER 1984—Continued

Benefits by age, sex, and average monthly benefit amount	Number (thousands)	Percent of total beneficiaries	Average monthly benefit	Percent of total benefits
Women:				
Under 50	238	.7	398.00	.6
50 to 59	306	.9	354.30	.7
60 to 61	112	.3	362.60	.3
62 to 64	193	.5	369.70	.5
Total, disabled women	849	2.4	371.20	2.1
Total, disabled workers	2,597	7.2	470.70	8.1
Wives of retired workers:				
With entitled children:				
Under 35	5	(1)	121.90	(1)
35 to 44	22	.1	131.30	(1)
45 to 54	40	.1	148.10	(1)
55 to 64	44	.1	181.10	.1
Total, with entitled children	111	.3	156.70	.1
Without entitled children: 62 and over	2,903	8.0	240.30	4.6
Total, wives of retired workers	3,014	8.3	237.20	4.8
Husbands of retired workers:				
62 to 74	19	.1	159.10	(1)
75 and over	18	(1)	172.80	(1)
Total, husbands	37	.1	165.80	(1)
Total spouses of retired workers	3,051	8.4	236.30	4.8
Wives of disabled workers:				
With entitled children:				
Under 35	56	.2	103.10	(1)
35 to 44	92	.3	120.30	.1
45 to 54	60	.2	135.90	.1
55 to 64	15	(1)	155.30	(1)
Total, with entitled children	223	.6	122.50	.2
Without entitled children: 62 and over	79	.2	155.10	.1
Total, wives of disabled workers	302	.8	131.10	.3
Husbands of disabled workers	2	(1)	101.10	(1)
Total spouses of disabled workers	304	.8	130.90	.3
Children:				
Children of retired workers:				
0 to 6	20	.1	131.10	(1)
7 to 10	36	.1	135.00	(1)
11 to 17	239	.7	179.40	.3
18 to 21 (students)	29	.1	149.90	(1)

TABLE 11.—NUMBER OF PERSONS RECEIVING VARIOUS TYPES OF OASDI BENEFITS BY AGE, SEX, AND AVERAGE MONTHLY BENEFIT AMOUNTS, DECEMBER 1984—Continued

Benefits by age, sex, and average monthly benefit amount	Number (thousands)	Percent of total beneficiaries	Average monthly benefit	Percent of total benefits
Disabled children 18 and over	153	.4	220.80	.2
Total, children of retired workers	477	1.3	185.50	.6
Children of deceased workers:				
0 to 6	155	.4	281.40	.3
7 to 10	265	.7	311.50	.5
11 to 17	1,156	3.2	328.10	2.5
18 to 21 (students)	112	.3	257.20	.2
Disabled children 18 and over	323	.9	302.60	.7
Total, children of deceased workers	2,010	5.5	314.30	4.2
Children of disabled workers:				
0 to 6	129	.4	110.00	.1
7 to 10	162	.4	120.30	.1
11 to 17	567	1.6	147.30	.6
18 to 21 (student)	32	.1	149.80	(1)
Disabled children 18 and over	31	.1	178.60	(1)
Total, children of disabled workers	921	2.6	138.50	.8
Total, children	3,408	9.3	248.60	5.6
Widowed mothers and fathers:				
Under 30	43	.1	312.10	.1
30 to 39	135	.4	314.90	.3
40 to 49	123	.3	324.40	.3
50 to 59	66	.2	331.30	.1
60 to 61	7	(1)	340.10	(1)
62 and over	9	(1)	342.00	(1)
Total, widowed mothers and fathers	383	1.0	321.50	.8
Widows (nondisabled):				
60, 61	188	.5	387.20	.5
62 to 64	457	1.3	401.20	1.2
65 to 69	807	2.2	421.30	2.3
70 to 79	1,720	4.7	425.90	4.9
80 to 89	1,199	3.3	416.80	3.3
90 and over	269	.7	379.70	.7
Total, widows	4,640	12.7	416.10	12.8
Widowers (nondisabled):				
62 to 64	13	(1)	305.30	(1)
65 to 69	4	(1)	324.40	(1)
70 to 74	3	(1)	314.00	(1)
75 to 79	3	(1)	303.40	(1)
80 to 84	3	(1)	298.10	(1)

TABLE 11.—NUMBER OF PERSONS RECEIVING VARIOUS TYPES OF OASDI BENEFITS BY AGE, SEX, AND AVERAGE MONTHLY BENEFIT AMOUNTS, DECEMBER 1984—Continued

Benefits by age, sex, and average monthly benefit amount	Number (thousands)	Percent of total beneficiaries	Average monthly benefit	Percent of total benefits
85 and over	3	(1)	291.80	(1)
Total, widowers	29	.1	306.70	.1
Disabled widows and widowers:				
50 to 54	10	(1)	304.20	(1)
55 to 59	37	.1	307.00	.1
60	12	(1)	307.30	(1)
61	12	(1)	307.30	(1)
62 and over	39	.1	305.50	.1
Total, disabled widows and widowers	110	.3	306.30	.2
Disabled widows	108	.3	307.40	.2
Disabled widowers	1	(1)	190.70	(1)
Parents: Total	10	(1)	363.90	(1)
Special age 72 beneficiaries (primary):				
Men	4	(1)	133.50	(1)
Women	36	.1	134.10	(1)
Total, age 72 beneficiaries	40	.1	134.00	(1)
Wives of special age 72 beneficiaries	(2)	(1)	132.30	(1)
Total	36,479	100.0	411.90	100.0

[1] Less than 0.1 percent.

[2] Less than 500 beneficiaries.

Note.—Columns may not add due to rounding.

Source: Office of Research, Statistics, and International Policy; Social Security Administration.

The previous three tables have shown the number and average benefit classified by type of beneficiary. Many individuals receive benefits on their own record plus other benefits based upon earnings of their spouse or former spouse. Table 12 separates, by type of female beneficiary, the amount of benefits received on her own earnings record versus someone else's. For example, 9.4 million female beneficiaries over age 65 are insured and receive an average benefit of $425 or total benefits of $4,016 million. Of this, approximately 86 percent is earned on the basis of their own earnings while the remaining 14 percent is received as a dependent spouse. Some 6.6 million female beneficiaries over age 65 who are not insured receive an average benefit of $366. These benefits were all earned by a spouse or former spouse. Most of these benefits represent a survivor benefit. Table 13 presents similar information for male beneficiaries.

TABLE 12.—OASDI MONTHLY BENEFITS RECEIVED BY FEMALES IN DECEMBER 1985 [1]

[Numbers in thousands; amounts in millions except averages]

	Total OASDI benefit	Old-age benefit based on own earnings record	Disability benefit based on own earnings record	Retirement benefit received as spouse	Survivor benefit received as spouse	Disability benefit received as spouse	Benefit received as another parent, or special primary	Percent of total female benefits
Age 65 and over (insured):								
Number	9,446	9,446		[2] 1,187	[2] 2,096		[2] 3	
Total benefits	$4,016	$3,450		$116	$451		$1	52.1
Average	$425.34	$365.25		$97.44	$215.38		$203.95	
Age 65 and over (not insured):								
Number	6,599			2,450	4,079	32	38	
Total benefits	$2,418			$622	$1,784	$5	$7	31.4
Average	$366.40			$253.79	$437.22	$159.81	$196.60	
Age 62–64 (insured):								
Number	1,359	1,169	190	[2] 343	[2] 34		(3)	
Total benefits	$428	$311	$72	$35	$10		(4)	5.6
Average	$315.27	$266.28	$378.69	$102.35	$297.00		$324.57	
Age 62–64 (not insured):								
Number	1,033			487	492	45	8	
Total benefits	$325			$113	$202	$8	$3	4.2
Average	$315.01			$231.82	$410.10	$167.87	$359.56	
Age less than 62:								
Number	1,607		682	96	260	223	345	
Total benefits	$519		$260	$15	$99	$27	$117	6.7
Average	$322.79		$381.77	$156.30	$380.04	$122.80	$338.76	
Total number	20,044	10,615	872	3,033	4,831	300	392	

TABLE 12.—OASDI MONTHLY BENEFITS RECEIVED BY FEMALES IN DECEMBER 1985 [1]—Continued

[Numbers in thousands; amounts in millions except averages]

	Total OASDI benefit	Old-age benefit based on own earnings record	Disability benefit based on own earnings record	Retirement benefit received as spouse	Survivor benefit received as spouse	Disability benefit received as spouse	Benefit received as another parent, or special primary	Percent of total female benefits
Total benefits	$7,708	$3,761	$332	$901	$2,546	$40	$128	100.0
Average	$384.57	$354.35	$381.10	$296.90	$526.91	$133.46	$326.74	....
Percent of total female benefits	100.0	48.8	4.3	11.7	33.0	0.5	1.7	....

[1] Table does not include female child beneficiaries. [2] Dually entitled. [3] Less than 500. [4] Less than $500,000.

TABLE 13.—OASDI MONTHLY BENEFITS RECEIVED BY MALES IN DECEMBER 1985 [1]

[Numbers in thousands; amounts in millions except averages]

	Total OASDI benefit	Old-age benefit based on own earnings record	Disability benefit based on own earnings record	Retirement benefit received as spouse	Survivor benefit received as spouse	Disability benefit received as spouse	Benefit received as father, parent, or special primary	Percentage of total male benefit
Age 65 and over (insured):								
Number	10,531	10,531	....	(2)	(2)	....	(2)	....
Total benefits	$5,759	$5,759	....	(2)	(2)	....	(2)	78.5
Average	$546.84	$546.84	....	....	....	....	....	....
Age 65 and over (not insured):								
Number	57	....	....	35	17	1	3	....

Total benefits	$12	......		$6	$6	(3)	$1	0.2
Average	$214.98	......		$170.67	$319.52	$109.57	$168.50	......
Age 62–64 (insured):								
Number	1,658	1,236	372	(2)	(2)	......	(2)	......
Total benefits	$812	$603	$208	(2)	(2)	......	(2)	11.1
Average	$489.54	$469.04	$560.48	......				
Age 62–64 (not insured):								
Number	10	......		1	8	(4)	(4)	......
Total benefits	$3	......		(3)	$3	(3)	(3)	(5)
Average	$306.10	......		$128.01	$339.76	$81.88	$269.38	......
Age less than 62:								
Number	1,440	......	1,413	(4)	6	4	17	......
Total benefits	$750	......	$745	(3)	$1	(3)	$3	10.2
Average	$520.81	......	$527.11	$82.23	$253.28	$76.21	$195.02	......
Total number	13,695	11,817	1,785	36	31	5	21	......
Total benefits	$7,335	$6,362	$953	$6	$10	(4)	$4	100.0
Average	$535.62	$538.37	$534.06	$169.09	$313.05	$83.77	$191.20	......
Percent of total male benefits	100.0	86.7	13.0	0.1	0.1	(5)	0.1	......

---

[1] Table does not include male child beneficiaries. [2] Assumes all dually entitled beneficiaries are female. [3] Less than $500,000. [4] Less than $500. [5] Less than 0.05 percent.

TABLE 14.—1986 SUMMARY SOCIAL SECURITY INFORMATION

Tax rate:	
Employee and employer each	7.15 percent (5.70 percent—OASDI, 1.45 percent—HI).
Self-employed	14.30 percent (11.40 percent—OASDI, 2.90 percent—HI).
Wage Base	$42,000.
Quarter of Coverage	$440 equals 1 QC (minimum of $400 net earnings from self-employment needed to earn QC's based on self-employment income).
Retirement Test Exempt Earnings Limits:	
Age 65 and over	$7,800 annual, $650.00 monthly.
Under age 65	$5,760 annual, $480.00 monthly.

Bend Points:

PIA	Maximum Family Benefit
90 percent of first $297 of AIME, plus 32 percent of AIME over $297 thru $1,790, plus 15 percent of AIME over $1,790.	150 percent of first $379 of PIA, plus 272 percent of PIA over $379 thru $548, plus 134 percent of PIA over $548 thru $714, plus 175 percent of PIA over $714.

Benefit Examples:

Retired Worker Age 65 in 1986—January 1986 PIA	Long-Range Constant Replacement Rate Under Decoupled System
Fed. minimum wage earner, $380.90	Fed. minimum wage earner, 57 percent.
Average earner, $576.40	Average earner, 41 percent.
Maximum earner, $760.10	Maximum earner, 27 percent.

Average Earnings Level: 1984—$16,135, 1985 est.—$16,595.[1]
Federal Minimum Wage Level: [2] 1984—$6,968, 1985—$6,968.

Poverty level	1982 (actual)	1983 (actual)	1984 (actual)	1985 (est.)
Aged individual	$4,626	$4,775	$4,979	$5,160
Couple, aged head	5,836	6,023	6,282	6,510
Family of four	9,862	10,178	10,609	10,990

[1] 1985 Trustees' Report—alternative II-B assumptions.
[2] 2,080 hours times the hourly Federal minimum wage.

Source: Office of Legislative and Regulatory Policy, Social Security Administration.

TABLE 15.—MONTHLY BENEFIT AMOUNTS FOR SELECTED BENEFICIARY FAMILIES WITH FIRST ELIGIBILITY IN 1985, BY AVERAGE INDEXED MONTHLY EARNINGS, EFFECTIVE DECEMBER 1985

Beneficiary family	Average indexed monthly earnings of insured worker										
	$100	$280	$600	$1,000	$1,300	$1,691	$1,900	[1]$2,200	[1]$2,500	[1]$3,062	[1]$3,225
Primary insurance amount	$92.70	$259.80	$365.30	$497.30	$596.30	$725.30	$757.50	$803.90	$850.30	$937.20	$962.50
Maximum family benefit	139.10	389.70	548.00	902.40	1,084.30	1,269.10	1,325.60	1,406.90	1,488.00	1,640.10	1,684.30
Disability maximum family benefit [2]	92.70	259.80	525.80	746.00	894.40	1,087.90	1,136.30	1,205.90	1,275.50	1,405.80	
Disabled worker:											
Worker alone	92.00	259.00	365.00	497.00	596.00	725.00	757.00	803.00	850.00	937.00	
Worker, spouse, and 1 child	92.00	259.00	525.00	745.00	894.00	1,087.00	1,135.00	1,203.00	1,274.00	1,405.00	
Retired worker claiming benefits at age 62:[3]											
Worker alone	74.00	207.00	292.00	397.00	477.00	580.00	606.00				
Worker with spouse claiming benefits at:											
Age 65 or older	120.00	336.00	474.00	645.00	775.00	942.00	984.00				
Age 62 [3]	108.00	304.00	428.00	583.00	700.00	851.00	890.00				
Widow or widower claiming benefits at:											
Age 65 or older [4]	92.00	259.00	365.00	497.00	596.00	725.00	757.00				
Age 60 (or age 50 if disabled)	66.00	185.00	261.00	355.00	426.00	518.00	541.00				
1 surviving child	69.00	194.00	274.00	373.00	447.00	543.00	568.00	602.00	637.00	702.00	721.00
Widow or widower aged 65 or older and 1 child	138.00	389.00	547.00	870.00	1,043.00	1,268.00	1,325.00	1,405.00	1,487.00	1,639.00	1,683.00
Widowed mother or father and 1 child	138.00	388.00	548.00	746.00	894.00	1,086.00	1,136.00	1,204.00	1,274.00	1,404.00	1,442.00

BLANK PAGE

BLANK PAGE

BLANK PAGE

TABLE 15.—MONTHLY BENEFIT AMOUNTS FOR SELECTED BENEFICIARY FAMILIES WITH FIRST ELIGIBILITY IN 1985, BY AVERAGE INDEXED MONTHLY EARNINGS, EFFECTIVE DECEMBER 1985—Continued

Beneficiary family	Average indexed monthly earnings of insured worker										
	$100	$280	$600	$1,000	$1,300	$1,691	$1,900	[1]$2,200	[1]$2,500	[1]$3,062	[1]$3,225
Widowed mother or father and 2 children	138.00	387.00	546.00	900.00	1,083.00	1,269.00	1,323.00	1,404.00	1,488.00	1,638.00	1,683.00

---

[1] Average indexed monthly earnings at these levels would only be possible for workers with high earnings who died or became disabled at relatively young ages.

[2] The 1980 Amendments to the Social Security Act provide for different family maximum amounts for disability cases. For disabled workers entitled after June 1980, the maximum is the smaller of (1) 85 percent of the worker's AIME (or 100 percent of the PIA, if larger), or (2) 150 percent of the PIA.

[3] Assumes maximum reduction.

[4] A widow(er)'s benefit amount is limited to the amount the spouse would have been receiving if still living but not less than 82½ percent of the PIA.

APPENDIX A. STATISTICAL HISTORY AND FUTURE BENEFIT PROJECTIONS OF THE SOCIAL SECURITY PROGRAMS

The Social Security Act of 1935 was signed into law on August 14, 1935. The immediate origin of this legislation was the Committee on Economic Security which had been charged by President Roosevelt with the task of devising safeguards "against misfortune which cannot be wholly eliminated in the man-made world of ours."

In addition to the Federal old-age retirement program (title II), the original Social Security Act also included grants-in-aid to States for: old-age pensions based on need (title I); unemployment compensation systems (title III); aid to dependent children (title IV); maternal and child welfare services, the care of crippled children and vocational rehabilitation (title VI).

The original act has been amended on numerous occasions since 1935. However, the most significant changes to title II were made by the Social Security Amendments of 1939, 1950, 1954, 1956, 1965, 1972, 1977, and 1983. In addition, the medicare (title XVIII) program was added to the Social Security Act in 1965.

Today the term "social security" is seldom used to refer to all of the programs included in the Social Security Act. The term is most often used to refer to either solely title II, the old-age and survivor program insurance program and, since 1956, the disability insurance program, or to both title II and to title XVIII, the medicare program. This appendix presents historical data concerning the coverage, benefits and financing of each of the three programs.

COVERAGE

The original Social Security Act provided coverage on a mandatory basis under the old-age insurance program of all employees in commerce and industry (except railroad) under age 65. Specifically excluded from coverage "due to difficulties in collecting the tax" were the following services: agricultural labor; domestic services in a private home; casual labor not in the course of the employer's trade or business; and services performed by an officer or member of a crew on a documented vessel. Also specifically excluded were services performed in the employ of: the United States Government, a state or any political subdivision of a state; and non-profit (including religious) organizations.

Coverage has been extended both on a mandatory and a voluntary basis. Mandatory coverage was extended to workers age 65 and over not otherwise excluded in 1939. In 1950 non-farm self-employed, regularly employed farm and domestic workers, and Federal civilian employees not under a retirement system were covered on a mandatory basis. In addition, the 1950 amendments provided elective coverage to State and local government employees not under a retirement system and employees of nonprofit organizations.

The most significant extensions of coverage provided by the 1954 amendments were to self-employed farmers on a mandatory basis and, on an elective basis, State and local government employees (except firemen and policemen) under retirement systems and ministers. Coverage was extended to members of the uniformed services in 1956, and to ministers and members of religious orders who do not choose to be exempt on religious grounds. In 1983, coverage was extended on a compulsory basis to the following major groups: Federal employees hired after December 31, 1983; current and future Members of Congress; the President and Vice President; Federal judges; and all employees of nonprofit organizations.

The following two tables detail the extension of coverage under the social security program in terms of both jobs and wages:

TABLE 1.—CIVILIAN WORKERS COVERED BY SOCIAL SECURITY SYSTEM, 1939–84

[In millions]

Year	Paid civilian employees [1]	OASDHI coverage	Percent covered
1939 [2]	43.6	24.0	55.1
1944 [2]	51.2	30.8	60.2
1949 [2]	56.7	34.3	60.5
1954 [2]	59.5	45.3	76.1
1955	62.8	51.8	82.5
1956	63.2	53.2	84.2
1957	63.1	53.7	85.1
1958	62.7	53.4	85.2
1959	64.4	55.4	86.0
1960	64.6	55.7	86.2
1961	65.3	56.1	85.9
1962	66.4	57.3	86.3
1963	67.6	58.5	86.5
1964	69.3	60.1	86.7
1965	71.6	62.7	87.6
1966	73.6	64.9	88.2
1967	74.4	65.7	88.3
1968	75.9	67.1	88.4
1969	78.0	68.6	87.9
1970	77.6	69.2	89.2
1971	79.3	69.8	88.0
1972	82.1	72.6	88.4
1973	84.9	75.6	89.0
1974	84.5	75.2	89.0
1975	84.8	75.7	89.3
1976	87.8	80.3	91.5
1977	92.0	82.1	89.2
1978	95.2	83.2	87.4
1979	97.5	87.6	89.8
1980	98.9	89.3	90.3
1981	99.0	89.5	90.4
1982	98.4	88.9	90.3
1983 [3]	102.2	92.3	90.3
1984 [3]	105.5	97.2	92.1

[1] Includes paid employees and self-employed for all years.

[2] Monthly average for these years; all other years as of December.

[3] Effective 1983, Federal civilian workers are covered under HI. The number of workers and percent covered by HI, including Federal civilian workers, are: 1983, 94.8 million and 92.8 percent; 1984, 99.6 million and 94.4 percent.

Source: Social Security Statistical Supplement, 1982, table 4, and Office of Research, Statistics, and International Policy.

TABLE 2.—CIVILIAN WAGES COVERED BY SOCIAL SECURITY SYSTEM, 1946–85 [1]

[Dollars in billions]

Year	Total earnings	Earnings in covered employment		Total covered earnings	Percent of total earnings covered	Taxable earnings	Percent of covered earnings
		Employed	Self-employed				
1946	$148.3	$79.3		$79.3	53.5	$69.1	87.1
1947	158.6	92.4		92.4	58.3	78.4	84.8
1948	176.0	102.3		102.3	58.1	84.1	82.2
1949	170.6	100.0		100.0	58.6	81.8	81.8
1950	186.1	109.8		109.8	59.0	87.5	79.7
1951	215.6	132.5	$16.4	148.9	69.1	120.8	81.1
1952	230.1	143.5	16.4	159.9	69.5	128.6	80.5
1953	242.4	156.0	17.0	173.0	71.4	135.9	78.5
1954	240.7	155.1	16.8	171.9	71.4	133.5	77.7
1955	257.4	171.6	24.5	196.1	76.2	157.5	80.3
1956	276.0	188.5	28.3	216.8	78.6	170.7	78.8
1957	288.8	205.5	28.4	233.9	81.0	181.4	77.5
1958	292.8	208.0	28.5	236.5	80.8	180.7	76.4
1959	311.5	225.1	29.9	255.0	81.9	202.3	79.3
1960	324.9	236.0	29.2	265.2	81.6	207.0	78.1
1961	334.8	240.7	30.0	270.7	80.9	209.6	77.4
1962	355.9	257.7	31.3	289.0	81.2	219.1	75.8
1963	372.4	270.6	31.7	302.3	81.2	225.6	74.6
1964	398.2	290.9	33.6	324.5	81.5	236.4	72.8
1965	428.8	311.4	40.3	351.7	82.0	250.7	71.3
1966	469.8	346.7	44.0	390.7	83.2	312.5	80.0
1967	500.1	377.5	44.8	422.3	84.4	330.0	78.1
1968	547.4	413.6	46.4	460.0	84.0	375.8	81.7
1969	597.6	455.7	47.1	502.8	84.1	402.6	80.1
1970	631.7	483.6	48.0	531.6	85.2	415.6	78.2
1971	671.2	509.0	50.7	559.7	83.4	427.0	76.3
1972	737.0	563.3	54.6	617.9	83.8	484.1	78.3
1973	827.7	624.4	62.3	686.7	83.0	561.9	81.8
1974	891.0	681.6	65.2	746.7	83.8	636.8	85.3
1975	940.1	717.2	70.4	787.6	83.8	664.7	84.4
1976	1,037.2	797.2	76.8	874.7	84.3	737.7	84.3
1977	1,146.9	883.1	80.7	963.8	84.0	816.0	84.7
1978	1,295.8	1,002.2	93.7	1,095.9	84.6	917.8	83.7
1979	1,443.9	1,125.0	100.2	1,225.2	84.9	1,073.9	87.7
1980 [2]	1,552.6	1,230.5	97.7	1,328.2	85.5	1,175.8	88.5

TABLE 2.—CIVILIAN WAGES COVERED BY SOCIAL SECURITY SYSTEM, 1946–85 [1]—Continued

[Dollars in billions]

Year	Total earnings	Earnings in covered employment		Total covered earnings	Percent of total earnings covered	Taxable earnings	Percent of covered earnings
		Employed	Self-employed				
1981 [2]	1,697.1	1,348.2	98.5	1,446.7	85.2	1,292.7	89.4
1982 [2]	1,761.7	1,422.5	97.9	1,520.4	86.3	1,363.4	89.7
1983 [3]	1,867.7	1,499.9	108.5	1,608.4	86.1	1,452.9	90.3
1984 [3]	2,068.8	1,649.2	120.3	1,769.5	85.5	1,604.8	90.7
1985 [3]	2,202.8	1,759.2	120.4	1,879.6	85.3	1,706.5	90.8

[1] Sum of wages and salaries and proprietors' income with inventory valuation and capital consumption adjustments, as estimated by the Bureau of Economic Analysis in the National Income and Product Accounts.

[2] Revised.

[3] Preliminary.

Source: Social Security Statistical Supplement, 1983, and Office of Research, Statistics, and International Policy, SSA.

TABLE 3.—NUMBER OF WORKERS AND AVERAGE EARNINGS, 1937–1984

Year	Workers with taxable earnings [1]	With maximum earnings	Average earnings per worker	
			Total earnings [2]	Reported taxable [2]
1937	32,900	1,031	$979	$900
1938	31,820	933	896	833
1939	33,750	1,055	954	881
1940	35,390	1,196	1,009	932
1941	40,980	1,866	1,110	1,021
1942	46,360	3,569	1,255	1,142
1943	47,660	5,942	1,462	1,310
1944	46,300	7,163	1,583	1,392
1945	46,390	6,361	1,543	1,357
1946	48,840	6,477	1,624	1,415
1947	48,910	9,620	1,890	1,602
1948	49,020	12,061	2,087	1,716
1949	46,800	11,740	2,137	1,748
1950	48,280	13,936	2,274	1,812
1951	58,120	14,270	2,562	2,078
1952	59,580	16,606	2,684	2,159
1953	60,840	19,013	2,844	2,233
1954	59,610	18,866	2,884	2,240

TABLE 3.—NUMBER OF WORKERS AND AVERAGE EARNINGS, 1937–1984—Continued

Year	Workers with taxable earnings [1]	With maximum earnings	Average earnings per worker	
			Total earnings [2]	Reported taxable [2]
1955	65,200	16,704	3,008	2,416
1956	67,610	19,236	3,207	2,525
1957	70,590	21,095	3,314	2,569
1958	69,770	21,328	3,390	2,590
1959	71,700	19,112	3,556	2,822
1960	72,530	20,310	3,656	2,854
1961	72,820	21,265	3,717	2,879
1962	74,280	23,154	3,891	2,949
1963	75,540	24,570	4,002	2,986
1964	77,430	26,717	4,191	3,053
1965	80,680	29,136	4,359	3,108
1966	84,600	20,498	4,618	3,694
1967	87,040	22,948	4,852	3,791
1968	89,380	19,120	5,147	4,205
1969	92,060	22,577	5,462	4,373
1970	93,090	24,224	5,711	4,464
1971	93,340	26,404	5,996	4,574
1972	96,240	24,074	6,420	5,030
1973	99,830	20,250	6,879	5,628
1974	101,330	15,310	7,369	6,284
1975	100,200	15,070	7,860	6,633
1976	102,600	15,330	8,525	7,190
1977	105,800	15,700	9,075	7,718
1978	110,600	17,050	9,823	8,278
1979	112,700	11,236	10,805	9,465
1980 [3]	113,000	9,903	11,740	10,390
1981 [3]	113,400	8,619	12,717	11,384
1982 [3]	112,600	7,930	13,405	12,025
1983 [4]	113,400	7,300	14,013	12,721
1984 [5]	118,900	7,500	14,764	13,425

---

[1] Relates to wage and salary workers for 1937–50. Beginning 1951, includes self-employment.

[2] Total wages, including estimated amounts above taxable limit, for 1937–50. Beginning 1951, also includes reported total net earnings of self-employed persons.

[3] Data subject to adjustment.

[4] Taxable earnings are preliminary estimates based on Social Security data; employment and total covered earnings are preliminary estimates based on data from Bureau of Labor Statistics and the National Income and Product Accounts.

[5] Preliminary estimates based on data from Bureau of Labor Statistics and the National Income and Product Accounts.

Source: Social Security Bulletin, Annual Statistical Supplement, 1984–85, Table 20.

BENEFITS

In order to be fully insured, under the 1939 Amendments, a worker needed 2 quarters of coverage for each year elapsed since 1936 and before the quarter in which the worker died or turned 65. The minimum required for insured status was 6 quarters and the maximum was 40. The Social Security Amendments of 1950 significantly increased the number of workers who were insured for monthly benefits by requiring two quarters of coverage, which could be earned at any time, for each calendar year after 1950 or age 21, subject to the same maximum and minimum. The 1961 Amendments changed the requirement for fully insured status to only one quarter of coverage for each calendar year after 1950 or age 21. To be insured for disability benefits, a worker must have earned 20 quarters of coverage in the 40 quarters preceding disability, in addition to being fully insured. The 1967 Amendments liberalized the insured status requirements for disability benefits for workers under age 31 which significantly increased the number of workers insured for disability beginning in 1969.

The 1935 Social Security Act provided monthly benefits to retired workers age 65 and over and a lump-sum death benefit to these workers. The monthly benefits were to first be paid beginning January 1, 1942. The 1939 Social Security Amendments provided benefits to dependents—wives aged 65 and over and children under age 16 (changed to 18 in 1946)—of retired workers, and to survivors—widows aged 65, mothers with eligible child in care, children under age 16, and dependent parents—of deceased workers. In addition the 1939 Amendments provided that these benefits first be paid in 1940.

Benefits that have been added in retirement and survivors programs since 1939 include: retired women aged 62–64 (1956); retired men aged 62–65 (1961); widows aged 60–64 (1956 and 1965); widowers aged 60 and over (1950, 1961, and 1972); and, disabled widows (1967, 1972, and 1977).

In 1956, benefits were extended to disabled workers aged 50–64 and to disabled children of retired, disabled, or deceased workers age 18 and over, if they became disabled prior to age 18. The Social Security Amendments of 1958 provided benefits to the dependents of disabled workers on the same basis as dependents of retired workers. Benefits for disabled workers under age 50 were provided in 1960.

Monthly cash benefits have been increased in order to offset the effects of inflation on an ad hoc basis 10 times prior to the first automatic cost-of-living adjustment which was incorporated in the act by the Social Security Amendments of 1972. Beginning with the 1975 increase, benefits have been increased automatically. Because inflation has been more than 3 percent in every year since 1975, there have been increases annually except during calendar year 1983.

The following tables provide historical background concerning changes in insured status, benefit types, average amounts and increases, and OASDHI benefits paid:

TABLE 4.—INSURED STATUS AND COVERED WORKERS, 1940–85

[in millions]

At beginning of year	Total number of living workers	Living workers insured for retirement and/or survivor benefits						Living workers insured in event of disability
		Total insured		Fully insured			Currently insured only	
		Number	Percent	Total	Permanently insured	Not permanently insured		
1940	40.7	22.9	56.3	22.9	0.6	22.3	(1)	
1941	44.8	24.9	55.6	24.2	1.1	23.1	0.7	
1942	50.9	27.5	54.0	25.8	1.4	24.4	1.7	
1943	58.5	31.2	53.3	28.1	1.8	26.3	3.1	
1944	65.4	34.9	53.4	29.9	2.3	27.6	5.0	
1945	69.6	38.6	55.5	31.9	2.8	29.1	6.7	
1946	72.4	40.3	55.7	33.4	3.4	30.0	6.9	
1947	75.2	41.8	55.6	35.4	8.6	26.8	6.4	
1948	77.4	43.4	56.1	37.3	11.6	25.7	6.1	
1949	79.4	44.8	56.4	38.9	13.2	25.7	5.9	
1950	80.8	45.7	56.6	40.1	14.9	25.2	5.6	
1951	82.7	59.8	72.3	59.8	21.0	38.8	(1)	
1952	88.0	62.8	71.4	62.8	22.9	39.9	(1)	
1953	90.8	68.2	75.1	68.2	25.6	42.7	(1)	
1954	93.1	71.0	76.3	71.0	27.7	43.4	(1)	
1955	94.7	70.6	74.6	70.2	29.9	40.4	.4	31.9
1956	98.6	71.4	72.4	70.5	32.5	38.0	.9	35.4
1957	101.4	74.3	73.3	74.0	36.1	38.0	.3	37.2
1958	103.8	77.0	74.2	76.1	38.3	37.9	.9	38.4
1959	105.3	78.9	74.9	76.5	40.3	36.2	2.4	43.4
1960	107.4	79.7	74.2	76.7	42.2	34.6	3.0	46.4
1961	109.4	85.4	78.1	84.4	47.6	36.8	1.0	48.5
1962	111.2	89.1	80.1	88.5	53.3	35.3	.5	50.5
1963	113.3	90.4	79.8	89.8	54.9	34.8	.6	51.5
1964	115.6	92.0	79.6	91.3	56.6	34.7	.8	52.3
1965	118.1	93.6	79.3	92.8	58.3	34.5	.9	53.3
1966	121.3	95.8	79.0	94.8	60.2	34.6	.9	55.0
1967	125.0	98.3	78.6	97.2	61.9	35.3	1.1	55.7
1968	127.9	101.2	79.1	99.9	63.3	36.6	1.3	56.9
1969	130.8	104.0	79.5	102.6	64.5	38.1	1.4	70.1
1970	133.5	106.9	80.1	105.4	65.8	39.6	1.5	72.4
1971	135.9	109.8	80.8	108.2	67.0	41.2	1.6	74.5
1972	138.2	112.2	81.2	110.7	68.2	42.5	1.7	76.1
1973	140.6	114.8	81.7	113.3	69.8	43.5	1.6	77.8
1974	142.9	118.1	82.6	116.5	71.0	45.5	1.6	80.4

BEST COPY AVAILABLE

TABLE 4.—INSURED STATUS AND COVERED WORKERS, 1940–85—Continued

[In millions]

At beginning of year	Total number of living workers	Living workers insured for retirement and/or survivor benefits						Living workers insured in event of disability
		Total insured		Fully insured			Currently insured only	
		Number	Percent	Total	Permanently insured	Not permanently insured		
1975......	145.2	121.6	83.7	120.0	72.6	47.4	1.6	83.3
1976......	148.3	124.6	84.0	123.0	74.2	48.8	1.6	85.3
1977......	151.0	127.4	84.4	125.8	76.0	49.8	1.6	87.0
1978......	153.7	130.4	84.8	128.9	78.0	50.9	1.5	89.3
1979......	156.4	134.8	86.2	133.0	80.1	52.9	1.8	93.7
1980......	159.0	138.7	87.2	137.0	82.7	54.3	1.7	98.0
1981 [2]...	161.5	142.6	88.3	140.9	85.7	55.2	1.7	100.5
1982 [2]...	164.0	144.9	88.3	143.2	88.3	54.9	1.7	102.4
1983 [2]...	166.3	146.5	88.1	144.9	90.8	54.1	1.6	103.6
1984 [2]...	168.0	148.8	88.6	147.2	93.7	53.6	1.6	106.1
1985 [2]...	170.2	151.1	88.8	149.5	96.5	53.1	1.5	108.9

[1] Persons currently insured before July 1940, or currently insured after August 1950 and before July 1954, are also fully insured.

[2] Preliminary.

Source: Social Security Bulletin, Annual Statistical Supplement, 1984–85, Table 30, and Office of Research, Statistics, and International Policy.

Note: Total columns may not sum precisely due to rounding.

TABLE 5.—PERCENT OF INSURED WORKERS AGED 62 AND OVER IN CURRENT PAYMENT STATUS, 1941–85 [1]

	Aged 62–64			Aged 65 and over		
	Male	Female	Total	Male	Female	Total
1941				20	25	20
1945				29	40	30
1950				59	61	59
1951				57	55	56
1952				64	70	65
1953				60	64	61
1954				66	71	67
1955				70	75	71
1956				75	80	76
1960		44	44	84	87	85
1965	32	47	38	89	89	89
1966	32	46	37	90	89	89
1967	33	46	38	90	91	91
1968	33	46	38	90	91	90
1969	34	46	39	90	91	90
1970	34	46	39	90	90	90
1971	36	47	41	90	90	90
1972	39	49	43	91	89	90
1973	41	52	46	92	90	91
1974	44	54	48	94	91	93
1975	46	56	50	93	93	93
1976	49	57	53	94	93	93
1977	49	57	53	95	93	94
1978	52	59	55	95	93	94
1979	51	59	54	95	93	94
1980	52	59	55	95	93	94
1981	53	59	55	95	93	94
1982	54	59	56	95	93	94
1983	55	58	57	95	93	94
1984	56	58	57	95	93	94
1985	56	58	57	95	92	94

[1] Includes both OASI and DI worker benefits.

Source: Social Security Bulletin, Annual Statistical Supplement, 1984–85, Table 33, and Office of Research, Statistics, and International Policy.

TABLE 6.—NUMBER OF OASDI BENEFIT RECIPIENTS WITH BENEFITS IN CURRENT-PAYMENT STATUS, BY BENEFICIARY TYPE, DECEMBER 1940–84

[In thousands]

At end of selected year	Retired workers and auxiliaries								Disabled workers and auxiliaries			
	Total	Retired workers	Wives and husbands	Children	Widowed mothers and fathers	Widows and widowers	Parents	Persons with special age–72 benefits	Total	Disabled workers	Wives and husbands	Children
1940	222	112	30	55	20	4	1	...	...	...	...	...
1945	1,288	518	159	390	121	94	6	...	...	...	...	...
1950	3,477	1,771	508	700	169	314	15	...	...	...	...	...
1955	7,961	4,474	1,192	1,276	292	701	25	...	...	...	...	...
1960	14,157	8,061	2,269	1,845	401	1,544	36	...	687	455	77	155
1961	15,468	8,925	2,392	1,989	428	1,697	37	...	1,027	618	118	291
1962	16,778	9,739	2,531	2,160	452	1,859	37	...	1,275	741	147	387
1963	17,583	10,263	2,581	2,230	462	2,011	37	...	1,452	827	168	457
1964	18,236	10,669	2,604	2,298	471	2,159	36	...	1,563	894	179	490
1965	19,128	11,101	2,614	2,535	472	2,371	35	...	1,739	988	193	558
1966	20,797	11,658	2,640	2,739	488	2,602	35	634	1,970	1,097	220	654
1967	21,565	12,019	2,645	2,873	496	2,770	33	729	2,140	1,193	235	713
1968	22,225	12,421	2,645	3,009	505	2,938	32	676	2,335	1,295	253	787
1969	22,827	12,822	2,644	3,123	512	3,092	30	603	2,488	1,394	264	829
1970	23,564	13,349	2,668	3,234	523	3,227	29	534	2,665	1,493	283	889
1971	24,362	13,927	2,698	3,336	535	3,366	27	472	2,930	1,648	312	971
1972	25,205	14,555	2,735	3,427	541	3,510	26	410	3,271	1,833	350	1,088
1973	26,310	15,365	2,808	3,526	572	3,656	25	358	3,559	2,017	381	1,161

TABLE 6.—NUMBER OF OASDI BENEFIT RECIPIENTS WITH BENEFITS IN CURRENT-PAYMENT STATUS, BY BENEFICIARY TYPE, DECEMBER 1940–84—Continued

[In thousands]

At end of selected year	Retired workers and auxiliaries								Disabled workers and auxiliaries			
	Total	Retired workers	Wives and husbands	Children	Widowed mothers and fathers	Widows and widowers	Parents	Persons with special age-72 benefits	Total	Disabled workers	Wives and husbands	Children
1974	26,941	15,959	2,826	3,513	574	3,770	23	278	3,911	2,237	412	1,263
1975	27,732	16,588	2,867	3,562	582	3,889	21	223	4,352	2,489	453	1,411
1976	28,397	17,164	2,896	3,556	579	3,994	20	188	4,624	2,670	474	1,480
1977	29,217	17,821	2,961	3,552	583	4,119	18	159	4,860	2,837	495	1,525
1978	29,718	18,358	2,980	3,441	576	4,212	17	134	4,868	2,880	492	1,497
1979	30,347	18,970	2,991	3,363	574	4,321	16	112	4,777	2,871	475	1,431
1980	30,907	19,562	3,016	3,249	562	4,411	15	93	4,678	2,859	462	1,358
1981	31,550	20,195	3,031	3,178	548	4,508	14	76	4,456	2,777	428	1,252
1982	31,866	20,763	3,039	2,879	515	4,595	12	63	3,973	2,604	366	1,004
1983	32,272	21,419	3,039	2,657	400	4,694	11	51	3,813	2,569	308	936
1984[1]	32,657	21,907	3,051	2,487	382	4,779	10	40	3,822	2,597	304	921

[1] Based on unedited monthly data.

Source: Social Security Bulletin, Annual Statistical Supplement, 1984–85, Tables 69, 94, and 96.

TABLE 7.—OASDI BENEFICIARY FAMILIES WITH BENEFITS IN CURRENT-PAY STATUS, BY SELECTED FAMILY GROUPS, SELECTED YEARS, 1944–83

[In thousands]

Year [1]	Retired-worker families				Survivor families				Disabled-worker families					
	Worker only			Worker and wife	Aged widow only	Widowed mother and—			Worker only			Worker, wife, and—		Worker and spouse
	Total	Men	Women			1 child	2 children	3 or more children	Total	Men	Women	1 child	2 or more children	
1944	315	253	62	135	69	67	36	20	......	......	......	......	......	......
1950	1,240	939	301	498	314	82	53	33	......	......	......	......	......	......
1955	3,266	2,054	1,212	1,124	700	126	86	80	......	......	......	......	......	......
1960	5,742	2,922	2,820	2,122	1,527	172	113	114	357	261	96	22	32	22
1965	8,386	4,137	4,249	2,400	2,332	182	135	153	714	481	232	54	109	30
1970	10,533	4,904	5,629	2.457	3,080	183	155	182	1,054	680	374	77	164	43
1971	11,128	5,149	5,979	2,481	3,258	190	159	185	1,165	749	416	86	178	47
1972	11,653	5,364	6,288	2,507	3,325	188	166	184	1,287	821	467	98	198	52
1973	12,379	5,663	6,716	2,565	3,444	209	174	185	1,425	902	523	113	208	57
1974	12,948	5,862	7,086	2,583	3,536	218	176	178	1,586	989	598	123	224	62
1975	13,520	6,134	7,385	2,618	3,606	221	182	176	1,750	1,080	671	137	250	66
1976	14,056	6,351	7,705	2,647	3,706	219	186	171	1,883	1,152	730	144	257	72
1977	14,597	6,564	8,033	2,681	3,805	221	190	167	2,000	1,222	782	152	263	80
1978	15,148	6,791	8,357	2,697	3,894	228	186	158	2,043	1,245	798	155	256	81
1979	15,748	7,044	8,704	2,710	3,964	234	187	147	2,050	1,248	802	154	242	80

TABLE 7.—OASDI BENEFICIARY FAMILIES WITH BENEFITS IN CURRENT-PAY STATUS, BY SELECTED FAMILY GROUPS, SELECTED YEARS, 1944–83—Continued

[In thousands]

Year [1]	Retired-worker families				Survivor families				Disabled-worker families					
	Worker only			Worker and wife	Aged widow only	Widowed mother and—			Worker only			Worker, wife, and—		Worker and spouse
	Total	Men	Women			1 child	2 children	3 or more children	Total	Men	Women	1 child	2 or more children	
1980	16,314	7,286	9,028	2,736	4,033	239	184	134	2,061	1,257	804	154	228	80
1982	17,519	7.852	9,667	2,784	4,191	236	165	106	1,969	1,208	760	124	163	78
1983	18,162	8,166	9,996	2,830	4,271	161	141	92	1,961	1,215	746	85	143	80

[1] Data for 1981 are not available.

Source: Social Security Bulletin, Annual Statistical Supplement, 1984–85, Table 108.

TABLE 8.—OASDI AVERAGE MONTHLY BENEFITS IN CURRENT-PAYMENT STATUS, BY SELECTED FAMILY GROUPS, SELECTED YEARS, 1944–83

[Average monthly amount]

At end of year [1]	Retired-worker families				Survivor families				Disabled-worker families					
	Worker only			Worker and wife	Aged widow only	Widowed mother and—			Worker only			Worker, wife, and—		Worker and spouse
	Total	Men	Women			1 child	2 children	3 or more children	Total	Men	Women	1 child	2 or more children	
1944	23.00	24.10	19.30	37.90	20.20	34.40	47.30	50.10						
1950	42.20	44.60	34.80	71.70	36.50	76.90	93.90	92.40						
1955	59.10	64.60	49.80	103.50	48.70	106.80	135.40	133.20						

1960	69.90	79.90	59.60	123.90	57.70	131.70	188.00	181.70	87.90	91.90	76.90	184.70	192.20	135.50
1965	80.10	90.50	70.00	141.50	73.90	153.00	219.80	218.10	95.40	100.70	85.00	201.00	216.30	145.90
1970	114.20	128.70	101.60	198.90	102.40	213.00	291.10	289.90	128.10	136.30	113.10	264.10	273.20	199.20
1971	127.40	143.70	113.30	222.30	114.40	238.30	320.00	315.60	142.70	152.69	124.90	290.20	296.70	221.60
1972	157.10	177.00	140.20	272.50	138.30	290.00	383.10	376.10	175.00	188.20	151.80	356.30	362.80	274.20
1973	161.60	180.10	146.00	276.70	158.40	297.80	391.00	377.90	178.20	192.80	153.20	364.80	367.20	278.60
1974	183.10	204.20	164.60	312.30	178.80	335.00	438.40	421.90	200.00	217.80	170.60	409.90	411.30	314.00
1975	201.60	225.50	181.80	343.90	195.90	367.20	468.60	461.80	218.90	240.00	185.00	441.00	454.00	344.00
1976	218.80	245.10	197.10	373.10	211.00	399.80	503.40	499.70	327.40	261.40	199.40	482.20	495.70	377.00
1977	236.80	265.90	213.10	404.40	226.50	436.80	546.60	538.60	265.50	283.80	213.80	525.80	538.10	407.50
1978	256.60	288.90	230.30	437.50	243.60	474.00	591.90	582.80	277.90	308.50	230.20	568.00	585.90	443.00
1979	287.00	324.00	257.10	488.60	270.30	532.90	655.00	646.70	308.90	343.60	254.80	632.70	655.70	497.10
1980	333.00	377.10	297.40	566.60	311.60	612.80	759.20	740.50	355.40	396.20	291.70	727.00	746.10	573.00
1982	408.90	465.50	362.90	702.50	379.00	735.60	885.50	867.90	424.20	474.20	344.70	847.40	858.20	690.70
1983	429.70	490.00	380.40	742.90	400.60	774.80	923.00	884.50	439.40	490.40	355.40	867.90	881.80	716.20

---

[1] Data for 1981 not available.

Source: Social Security Bulletin, Annual Statistical Supplement, 1984-85, Table 108, and Office of Research, Statistics, and International Policy.

TABLE 9.—HISTORICAL COMPARISON OF AVERAGE WAGE INCREASES TO BENEFIT INCREASES AND CHANGES IN CPI, 1965–85

[In percent]

	Increases in wages [1]		Increase in CPI [2]		Increase in benefits [3]	
	Over prior year	Cumulative from each year to 1984	Over prior year	Cumulative from each year to 1984	Over prior year	Cumulative from each year to 1984
1965	1.8	259.8	1.7	236.5	7.0	308.9
1966	6.0	239.5	2.9	227.0	....	308.9
1967	5.6	221.5	2.9	217.8	....	308.9
1968	6.9	200.7	4.2	205.0	13.0	261.8
1969	5.8	184.2	5.4	189.4	....	261.8
1970	5.0	170.7	5.9	173.3	15.0	214.6
1971	5.0	157.8	4.3	162.0	10.0	186.0
1972	9.8	134.8	3.3	153.6	20.0	138.4
1973	6.3	120.9	6.2	138.8	....	138.4
1974	5.9	108.6	11.0	115.1	11.0	114.7
1975	7.5	94.0	9.1	97.2	8.0	98.8
1976	6.9	81.5	5.7	86.6	6.4	86.9
1977	6.0	71.2	6.5	75.2	5.9	76.5
1978	7.9	58.7	7.6	62.8	6.5	65.7
1979	8.7	46.0	11.4	46.1	9.9	50.8
1980	9.0	33.9	13.5	28.8	14.3	31.9
1981	10.1	21.7	10.2	16.8	11.2	18.6
1982	5.5	15.3	6.0	10.2	7.4	10.4
1983	4.9	9.9	3.0	7.0	[4] 3.5	6.7
1984	[5] 5.9	3.8	3.4	3.5	3.5	3.1
1985	[5] 3.8	....	[5] 3.5	....	[6] 3.1	....

---

[1] Average annual earnings series used to index earnings records.

[2] Increase in annual average CPI–W.

[3] Legislated benefit increases through 1975 and increases based on CPI thereafter.

[4] As a result of the Social Security Amendments of 1983, COLA's are provided on a calendar year basis, with the benefit increase payable in January rather than July. The July 1983 COLA was delayed to January 1984. This delay and a change in the computation period led to 6 months of 1983 not being accounted for in any COLA increase.

[5] Preliminary.

[6] Effective December 1985, payable January 1986.

Source: Office of Research, Statistics, and International Policy.

TABLE 10.—OASDHI EXPENDITURES AS PERCENT OF TOTAL SOCIAL WELFARE EXPENDITURE [1]

[Dollars in millions]

	Total expenditure [2]	OASDHI	Percent
1929	$3,921		
1940	8,795	$40.4	0.5
1950	23,508	784.1	3.3
1955	32,640	4,436.3	13.6
1960	52,293	11,032.3	21.1
1965	77,175	16,997.5	22.0
1970	145,856	36,835.4	25.3
1975	290,080	78,429.9	27.0
1979	430,280	131,719.4	30.6
1980	493,187	152,110.4	30.8
1981	550,841	180,425.0	32.8
1982	595,869	204,567.8	34.3
1983	641,709	224,709.2	

---

[1] Expenditures include those from Federal, State and local revenues (general and special) and trust funds and other expenditures under public law.

[2] Includes expenditures for public education, health and medical programs, veteran's programs, public aid (including SSI and food stamps) as well as social insurance programs other than social security.

Source: Social Security Bulletin, Annual Statistical Supplement, 1984–85, Table 2.

TABLE 11.—TOTAL OASDI BENEFITS PAID, AND AS A PERCENT OF PERSONAL INCOME

[In millions]

Year	Total benefits	Cash benefits		Personal income	Total benefits as a percent of personal income
		OASI	DI		
1937	$1	$1		$73,839	(1)
1938	10	10		68,041	(1)
1939	14	14		72,434	(1)
1940	35	35		77,902	(1)
1941	88	88		95,426	0.1
1942	131	131		122,573	.1
1943	166	166		150,845	.1
1944	209	207		164,511	.1
1945	274	274		169,958	.2
1946	378	378		177,608	.2
1947	466	466		190,080	.2
1948	556	556		209,014	.3
1949	667	667		206,375	.3
1950	961	961		227,181	.4
1951	1,885	1,885		254,942	.7

TABLE 11.—TOTAL OASDI BENEFITS PAID, AND AS A PERCENT OF PERSONAL INCOME—Continued

[In millions]

Year	Total benefits	Cash benefits		Personal income	Total benefits as a percent of personal income
		OASI	DI		
1952	2,194	2,194		271,772	.8
1953	3,006	3,006		287,688	1.0
1954	3,670	3,670		289,603	1.3
1955	4,968	4,968		310,341	1.6
1956	5,715	5,715		332,577	1.7
1957	7,404	7,347	$57	351,017	2.1
1958	8,576	8,327	249	361,146	2.4
1959	10,298	9,846	457	384,429	2.7
1960	11,245	10,677	568	402,346	2.8
1961	12,749	11,862	887	417,816	3.1
1962	14,461	13,356	1,105	443,626	3.3
1963	15,427	14,217	1,210	466,199	3.3
1964	16,223	14,914	1,309	499,205	3.2
1965	18,311	16,737	1,573	540,653	3.4
1966	20,048	18,267	1,781	588,167	3.4
1967	21,406	19,468	1,939	629,989	3.4
1968	24,938	22,642	2,294	690,604	3.6
1969	26,751	24,209	2,542	754,673	3.5
1970	31,863	28,796	3,067	811,088	3.9
1971	37,171	33,413	3,758	868,448	4.3
1972	41,595	37,122	4,473	951,353	4.4
1973	51,459	45,741	5,718	1,065,183	4.8
1974	58,521	51,618	6,903	1,168,593	5.0
1975	66,923	58,509	8,414	1,264,963	5.3
1976	75,665	65,699	9,966	1,391,192	5.4
1977	84,576	73,113	11,463	1,540,407	5.5
1978	92,865	80,352	12,513	1,732,673	5.4
1979	104,264	90,556	13,708	1,951,170	5.3
1980	120,511	105,074	15,437	2,165,315	5.6
1981	140,994	123,795	17,199	2,429,458	5.8
1982	156,138	138,800	17,338	2,584,598	6.0
1983	167,032	149,502	17,530	2,744,245	6.1
1984	175,738	157,841	17,897	[2] 3,012,100	5.8
1985	[3] 186,198	[3] 167,362	[3] 18,836		

[1] Less than 0.05 percent.

[2] Rounded to nearest 100 million.

[3] Projected.

NA = Not available.

Source: Social Security Statistical Supplement, 1983.

TABLE 12.—ESTIMATED COST OF OASDI AND HI SYSTEMS AS PERCENT OF GNP UNDER ALTERNATIVE II–B, 1985–2060

[In percent]

Calendar year	OASDI	HI	OASDI–HI
1985	4.94	1.17	6.11
1990	4.82	1.27	6.09
1995	4.71	1.41	6.12
2000	4.38	1.47	5.85
2005	4.33	1.49	5.82
2010	4.55	1.49	6.04
2015	5.01	1.51	6.52
2020	5.57	1.59	7.16
2025	6.06	1.74	7.80
2030	6.29	1.90	8.19
2035	6.28	2.03	8.31
2040	6.12	2.12	8.24
2045	5.99	2.17	8.16
2050	5.90	2.18	8.08
2055	5.81	2.18	7.99
2060	5.71	2.79	8.50
Averages:			
1985–2009	4.59	1.39	5.99
2010–2034	5.64	1.69	7.32
2005–2059	5.97	2.20	8.17
1985–2059	5.40	1.76	7.16

Source: 1985 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds, Tables 31 and E3.

TABLE 13.—COST RATES FOR THE OASI AND DI TRUST FUNDS AS A PERCENT OF TAXABLE PAYROLL, 1940–84

[In percent]

Calendar year	OAI [1]	SI [1]	OASI	DI	OASDI
1940	0.10	0.09	0.19	....	0.19
1941	.16	.11	.27	....	.27
1942	.17	.13	.30	....	.30
1943	.18	.14	.32	....	.32
1944	.20	.15	.36	....	.36
1945	.26	.22	.48	....	.48
1946	.36	.25	.61	....	.61
1947	.40	.25	.65	....	.65
1948	.46	.26	.72	....	.72
1949	.58	.31	.89	....	.89

TABLE 13.—COST RATES FOR THE OASI AND DI TRUST FUNDS AS A PERCENT OF TAXABLE PAYROLL, 1940–84—Continued

[In percent]

Calendar year	OAI [1]	SI [1]	OASI	DI	OASDI
1950	.79	.38	1.17		1.17
1951	1.18	.50	1.68		1.68
1952	1.28	.55	1.83		1.83
1953	1.71	.64	2.35		2.35
1954	2.12	.77	2.89		2.89
1955	2.52	.82	3.34		3.34
1956	2.72	.84	3.56		3.56
1957	3.32	.97	4.29	.03	4.32
1958	3.85	1.10	4.95	.15	5.10
1959	4.07	1.20	5.27	.24	5.51
1960	4.29	1.30	5.59	.30	5.89
1961	4.67	1.46	6.13	.47	6.60
1962	5.02	1.58	6.60	.56	7.16
1963	5.19	1.65	6.84	.59	7.43
1964	5.17	1.66	6.83	.62	7.45
1965	5.42	1.81	7.23	.70	7.93
1966	4.58	1.66	6.24	.64	6.88
1967	4.63	1.64	6.27	.65	6.92
1968	4.64	1.71	6.35	.67	7.03
1969	4.66	1.72	6.38	.70	7.08
1970	5.36	1.96	7.32	.81	8.12
1971	6.07	2.20	8.27	.97	9.23
1972	5.98	2.15	8.13	1.01	9.14
1973	6.21	2.38	8.59	1.09	9.69
1974	6.20	2.35	8.55	1.16	9.70
1975	6.77	2.52	9.29	1.36	10.65
1976	6.89	2.53	9.42	1.44	10.86
1977	6.93	2.53	9.46	1.50	10.97
1978	6.85	2.44	9.29	1.45	10.74
1979	6.57	2.31	8.88	1.35	10.23
1980	6.95	2.41	9.36	1.38	10.75
1981	7.46	2.52	9.98	1.39	11.37
1982	8.05	2.60	10.65	1.35	12.00
1983	7.91	2.45	10.36	1.23	11.59
1984 [2]	7.76	2.37	10.13	1.16	11.29

---

[1] These estimates are based on the assumption that total OASI expenditures are distributed between OAI and SI in the same proportions as for actual benefits.

[2] Based on the Alternative II–B assumptions of the 1985 Trustees Report.

Note: All numbers in this table are presented as percentages of taxable payroll and are based on data published in 1985 and earlier Trustees Reports.

Source: Office of the Actuary, Social Security Administration.

TABLE 14.—ESTIMATED COST RATES FOR THE OASDI TRUST FUND AS A PERCENT OF TAXABLE PAYROLL, 1985–2060

[In percent]

Calendar year	OAI	SI	OASI	DI	OASDI
1985	7.79	2.31	10.10	1.19	11.29
1990	7.83	2.20	10.03	1.04	11.07
1995	7.65	2.16	9.81	1.05	10.86
2000	7.03	2.01	9.04	1.12	10.17
2005	6.88	1.95	8.83	1.29	10.12
2010	7.33	1.93	9.26	1.48	10.74
2015	8.43	1.95	10.38	1.60	11.98
2020	9.83	2.02	11.85	1.66	13.51
2025	11.05	2.12	13.17	1.74	14.90
2030	11.77	2.24	14.01	1.69	15.70
2035	11.93	2.32	14.25	1.64	15.89
2040	11.68	2.38	14.06	1.65	15.71
2045	11.50	2.40	13.90	1.70	15.59
2050	11.50	2.38	13.88	1.70	15.58
2055	11.52	2.34	13.86	1.69	15.55
2060	11.52	2.31	13.83	1.69	15.51
25-year averages:					
1985–2009	7.37	2.09	9.46	1.15	10.62
2010–2034	10.06	2.08	12.14	1.65	13.79
2035–2059	11.59	2.37	13.96	1.68	15.64
75-year average:					
1985–2059	9.67	2.18	11.85	1.49	13.35

Note: All estimates in this table are presented as percentages of taxable payroll and are based on the Alternative II–B assumptions of the 1985 Trustees Report.

Source: Office of the Actuary.

TABLE 15.—PAST AND FUTURE EARNINGS LEVELS, PRIMARY INSURANCE AMOUNTS IN ACTUAL AND CONSTANT DOLLARS, AND REPLACEMENT RATES, UNDER PRESENT LAW, 1953–2040 [1]

Calendar year	Actual earnings in previous year			Sum of monthly PIA's in year of entitlement [2]						Replacement rates [3] (in percent)		
				Actual dollars			1985 constant dollars					
	Low earner	Average earner	Maximum earner [4]	Low earner	Average earner	Maximum earner [4]	Low earner	Average earner	Maximum earner [4]	Low earner	Average earner	Maximum earner [4]
1953 [5]	1,560	2,973	3,600	714	912	1,020	2,845	3,634	4,065	45.8	30.7	28.3
1955 [5]	1,560	3,156	3,600	774	1,091	1,182	3,081	4,341	4,704	49.6	34.6	32.8
1960 [5]	2,080	3,856	4,800	936	1,284	1,428	3,373	4,626	5,145	45.0	33.3	29.8
1965 [5]	2,600	4,576	4,800	1,040	1,439	1,580	3,519	4,866	5,345	40.0	31.4	32.9
1970 [5]	3,328	5,894	7,800	1,421	2,021	2,278	3,904	5,553	6,259	42.7	34.3	29.2
1975 [5]	3,883	8,031	13,200	2,309	3,400	3,973	4,578	6,741	7,878	59.5	42.3	30.1
1980 [5]	6,032	11,479	22,900	3,859	5,862	7,437	4,993	7,585	9,622	64.0	51.1	32.5
1983	6,968	14,531	32,400	4,437	6,655	8,539	4,768	7,152	9,176	63.7	45.8	26.4
1984	6,968	15,239	35,700	4,345	6,532	8,468	4,514	6,787	8,798	62.4	42.9	23.7
1985	6,968	16,135	37,800	[6] 4,445	6,598	8,629	4,445	6,598	8,629	[6] 63.8	40.9	22.8
1988	7,806	18,501	43,200	5,204	7,907	10,580	4,496	6,831	9,139	66.7	42.5	24.5
1990	8,793	20,942	48,600	5,732	8,744	11,818	4,543	6,930	9,367	65.2	41.8	24.3
2000	15,077	35,907	84,300	9,857	14,840	21,376	5,117	7,946	11,445	63.4	41.3	25.4
2010	25,704	61,218	143,400	15,610	25,301	38,835	5,646	9,152	14,054	60.7	41.3	27.1
2020	45,823	104,372	244,200	25,763	43,143	67,737	6,296	10,543	16,552	58.8	41.3	27.7

2030	74,714	177,944	416,100	42,937	73,556	115,480	7,088	12,143	19,064	57.5	41.3	27.8
2040	127,381	303,379	709,200	73,210	125,401	196,779	8,165	13,985	21,946	57.5	41.3	27.7

---

[1] For workers becoming entitled for January at age 65 with steady career earnings.

[2] Sum rounded to nearest dollars.

[3] Sum of monthly PIA's in year of entitlement expressed as percent of earnings in year prior to entitlement.

[4] Earnings equal to the social security taxable earnings base.

[5] PIA's and replacement rates for these workers are based on the pre-1977 benefit formula.

[6] Based on special minimum PIA computation.

Source: Office of the Actuary, Social Security Administration.

Note: For those illustrative cases retiring at age 65 in 2010 and later, the "normal retirement age" is greater than 65 and, therefore, an actuarial-reduction factor will apply. Thus, showing the PIA's for such persons is somewhat inappropriate.

FINANCING

The payroll tax is imposed on covered earnings up to a specific dollar amount. Workers who earn more than the maximum taxable earnings base do not pay FICA (Federal Insurance Contributions Act) or SECA (Self-Employed Contributions Act) tax on their earnings above the base.

The earnings base has increased numerous times from 1937 through 1986. A majority of these increases have been provided through specific legislative amendments. However, the earnings base is currently automatically adjusted annually according to the increase in average wages in the economy, but only if the cost-of-living benefit increase was established for the previous December.

The tax rates have also been changed many times since 1937. Under the original act, the OASI tax rate was scheduled to gradually increase from 1 percent in 1937 to 3 percent in 1949. These increases were delayed several times during the 1940's and the tax rate did not increase to 1.5 percent until 1950. The current 1986 OASI tax rate is 5.2 percent. The tax for the disability insurance program was 0.25 percent in 1957 and is 0.50 percent in 1986. The hospital insurance (medicare part A) rate was 0.35 percent in 1966 and is currently 1.45 percent. (For 1984 only, employees were allowed a credit of 0.3 percent of their taxable wages against their FICA tax liability, reducing the effective tax rate to 6.7 percent.)

Beginning in 1984, the OASDHI rates for self-employed persons is equal to the combined employer-employee OASDHI rate. For 1984, self-employed persons were allowed a credit (comparable to the credit allowed employers against the FICA tax) against SECA tax equal to 2.7 percent of net self-employment income. For 1985, the amount of the credit was 2.3 percent. For 1986 through 1989, the credit will be 2.0 percent. The SECA tax credit may directly be taken into account in computing SECA liability for a taxable year and estimated tax payments for that year.

Effective in 1990 and thereafter, the credit would terminate and be replaced with a system designed to achieve parity between employees and the self-employed. Under this system:

1. The base of the self-employment tax will be adjusted downward to reflect the fact that employees do not pay FICA tax on the value of the employer's FICA tax.
2. A deduction will be allowed for income tax purposes, for half of SECA liability, to allow for the fact that employees do not pay income tax on the value of the employer's FICA tax.

The following four tables detail the annual taxable earnings base, the three individual and combined tax rates and the annual maximum contribution for both employees, employers, and self-employed persons:

TABLE 16.—ANNUAL MAXIMUM TAXABLE EARNINGS AND CONTRIBUTION RATE: EMPLOYERS AND EMPLOYEES, 1937–2000 AND THEREAFTER

Beginning—	Annual maximum taxable earnings	Contribution rate			
		Total	OASI	DI	HI
1937	$3,000	1	1	...	...
1950	3,000	1.5	1.5	...	...
1951	3,600	1.5	1.5	...	...
1954	3,600	2	2	...	...
1955	4,200	2	2	...	...
1957	4,200	2.25	2	0.25	...
1959	4,800	2.5	2.25	.25	...
1960	4,800	3	2.75	.25	...
1962	4,800	3.125	2.875	.25	...
1963	4,800	3.625	3.375	.25	...
1966	6,600	4.2	3.5	.35	0.35
1967	6,600	4.4	3.55	.35	.5
1968	7,800	4.4	3.325	.475	.6
1969	7,800	4.8	3.725	.475	.6
1970	7,800	4.8	3.65	.55	.6
1971	7,800	5.2	4.05	.55	.6
1972	9,000	5.2	4.05	.55	.6
1973	10,800	5.85	4.3	.55	1.0
1974	13,200	5.85	4.375	.575	.9
1975	14,100	5.85	4.375	.575	.9
1976	15,300	5.85	4.375	.575	.9
1977	16,500	5.85	4.375	.575	.9
1978	17,700	6.05	4.275	.775	1.00
1979	22,900	6.13	4.33	.75	1.05
1980	25,900	6.13	4.52	.56	1.05
1981	29,700	6.65	4.70	.65	1.3
1982	32,400	6.7	4.575	.825	1.3
1983	35,700	6.7	4.775	.625	1.3
1984 [1]	37,800	7.0	5.2	.5	1.3
1985	39,600	7.05	5.2	.5	1.35
1986–1987	42,000	7.15	5.2	.5	1.45
1988–1989	([2])	7.51	5.53	.53	1.45
1990–1999	([2])	7.65	5.6	.60	1.45
2000 and thereafter	([2])	7.65	5.49	.71	1.45

[1] Tax credits apply for 1984.

[2] Subject to automatic increase.

Source: Social Security Bulletin, Annual Statistical Supplement, 1984–85, Table D.

BEST COPY AVAILABLE

TABLE 17.—MAXIMUM ANNUAL CONTRIBUTION: EMPLOYEE, 1937–86

Beginning—	Total	OASI	DI	HI
1937	$30.00	$30.00		
1950	45.00	45.00		
1951	54.00	54.00		
1954	72.00	72.00		
1955	84.00	84.00		
1957	94.50	84.00	$10.50	
1959	120.00	108.00	12.00	
1960	144.00	132.00	12.00	
1962	150.00	138.00	12.00	
1963	174.00	162.00	12.00	
1966	277.20	231.00	23.10	$23.10
1967	290.40	234.30	23.10	33.00
1968	343.20	259.35	37.05	46.80
1969	374.40	290.55	37.05	46.80
1970	374.40	284.70	42.90	46.80
1971	405.60	315.90	42.90	46.80
1972	468.00	364.50	49.50	54.00
1973	631.80	464.40	59.40	108.00
1974	772.20	577.50	75.90	118.80
1975	824.85	618.88	81.08	126.90
1976	895.05	669.38	87.98	137.70
1977	965.25	721.88	94.88	148.50
1978	1,070.85	756.68	137.18	177.00
1979	1,403.77	991.57	171.75	240.45
1980	1,587.67	1,170.68	145.04	271.95
1981	1,975.05	1,395.90	193.05	386.10
1982	2,170.81	1,482.30	267.30	421.20
1983	2,391.90	1,704.68	223.12	464.10
1984 [1]	2,646.00	1,965.60	189.00	491.40
1985	2,791.80	2,059.20	198.00	534.60
1986	3,003.00	2,184.00	210.00	609.00
Total cumulative employee contributions 1937 to 1986 [1]	27,769.19	20,741.93	2,494.27	4,533.00

[1] Includes tax credit.

Source: Social Security Bulletin, Annual Statistical Supplement, 1984–85, Table F.

TABLE 18.—ANNUAL MAXIMUM TAXABLE EARNINGS AND CONTRIBUTION RATE: SELF-EMPLOYED, 1937–2000 AND THEREAFTER

Beginning—	Annual maximum taxable earnings	Contribution rate			
		Total	OASI	DI	HI
1937	$3,000				
1950	3,000				
1951	3,600	2.25	2.25		
1954	3,600	3	3		
1955	4,200	3	3		
1957	4,200	3.375	3	0.375	
1959	4,800	3.75	3.375	.375	
1960	4,800	4.5	4.125	.375	
1962	4,800	4.7	4.325	.375	
1963	4,800	5.4	5.025	.375	
1966	6,600	6.15	5.275	.525	0.35
1967	6,600	6.4	5.375	.525	.5
1968	7,800	6.4	5.0875	.7125	.6
1969	7,800	6.9	5.5875	.7125	.6
1970	7,800	6.9	5.475	.825	.6
1971	7,800	7.5	6.075	.825	.6
1972	9,000	7.5	6.075	.825	.6
1973	10,800	8	6.205	.795	1.0
1974	13,200	7.9	6.185	.815	.9
1975	14,100	7.9	6.185	.815	.9
1976	15,300	7.9	6.185	.815	.9
1977	16,500	7.9	6.185	.815	.9
1978	17,700	8.10	6.01	1.09	1.00
1979	22,900	8.10	6.01	1.04	1.05
1980	25,900	8.10	6.2725	.7775	1.05
1981	29,700	9.30	7.025	.975	1.30
1982	32,400	9.35	6.8125	1.2375	1.30
1983	35,700	9.35	7.1125	.9375	1.30
1984 [1]	37,800	14.0	10.4	1.0	2.6
1985 [1]	39,600	14.1	10.4	1.0	2.7
1986 [1]	42,000	14.3	10.4	1.0	2.9
1987 [1]	([2])	14.3	10.4	1.0	2.9
1988–1989 [1]	([2])	15.02	11.06	1.06	2.9
1990–1999	([2])	15.3	11.2	1.2	2.9
2000 and thereafter	([2])	15.3	10.98	1.42	2.9

[1] Tax credits apply from 1984 through 1989.

[2] Subject to automatic increase.

Source: Social Security Bulletin, Annual Statistical Supplement, 1984–85, Table D.

TABLE 19.—MAXIMUM ANNUAL CONTRIBUTION: SELF-EMPLOYED, 1937–86

Beginning—	Total	OASI	DI	HI
1937				
1950				
1951	$81.00	$81.00		
1954	108.00	108.00		
1955	126.00	126.00		
1957	141.75	126.00	$15.75	
1959	180.00	162.00	18.00	
1960	216.00	198.00	18.00	
1962	225.60	207.60	18.00	
1963	259.20	241.20	18.00	
1966	405.90	348.15	34.65	$23.10
1967	422.40	354.75	34.65	33.00
1968	499.20	396.82	55.57	46.80
1969	538.20	435.82	55.57	46.80
1970	538.20	427.05	64.35	46.80
1971	585.00	473.85	64.35	46.80
1972	675.00	546.75	74.25	54.00
1973	864.00	670.14	85.86	108.00
1974	1,042.80	816.42	107.58	118.80
1975	1,113.90	872.08	114.91	126.90
1976	1,208.70	946.30	124.69	137.70
1977	1,303.50	1,020.52	134.47	148.50
1978	1,433.70	1,063.77	192.93	177.00
1979	1,854.90	1,376.29	238.16	240.45
1980	2,097.90	1,624.58	201.37	271.95
1981	2,762.10	2,086.43	289.57	386.10
1982	3,029.40	2,207.25	400.95	421.20
1983	3,337.95	2,539.16	334.69	464.10
1984 [1]	5,292.00	3,931.20	378.00	982.80
1985 [1]	5,583.60	4,118.40	396.00	1,069.20
1986 [1]	6,006.00	4,368.00	420.00	1,218.00
Cumulative contributions, 1937 to 1986 [1]	43,096.05	32,967.96	3,960.09	6,168.00

[1] Includes tax credit.

Source: Social Security Bulletin, Annual Statistical Supplement, 1984–85, Table F.

Table 20 indicates the status of the three major social security funds, both separated and combined, measured as assets available at the beginning of each year as a percent of actual outgo during the year.

TABLE 20.—ASSETS OF OLD-AGE AND SURVIVORS INSURANCE (OASI), DISABILITY INSURANCE (DI), AND HOSPITAL INSURANCE TRUST FUNDS AT BEGINNING OF YEAR AS PERCENT OF OUTGO DURING YEAR

[In percent]

Calendar year	OASI	DI	HI	Combined
1937				
1938	7,660			7,660
1939	8,085			8,085
1940	2,781			2,781
1941	1,782			1,782
1942	1,737			1,737
1943	1,891			1,891
1944	2,025			2,025
1945	1,975			1,975
1946	1,704			1,704
1947	1,592			1,592
1948	1,542			1,542
1949	1,487			1,487
1950	1,156			1,156
1951	698			698
1952	681			681
1953	564			564
1954	500			500
1955	405			405
1956	371			371
1957	300			300
1958	259	249		259
1959	212	284		215
1960	180	304		186
1961	164	239		169
1962	141	206		146
1963	123	183		128
1964	118	159		122
1965	109	121		110
1966	96	83		91
1967	101	83	28	90
1968	103	83	25	90
1969	102	111	43	95

TABLE 20.—ASSETS OF OLD-AGE AND SURVIVORS INSURANCE (OASI), DISABILITY INSURANCE (DI), AND HOSPITAL INSURANCE TRUST FUNDS AT BEGINNING OF YEAR AS PERCENT OF OUTGO DURING YEAR—Continued

[In percent]

Calendar year	OASI	DI	HI	Combined
1970	101	126	47	96
1971	94	140	54	93
1972	88	140	47	87
1973	75	125	40	76
1974	68	110	69	73
1975	63	92	79	68
1976	54	71	77	60
1977	47	48	66	50
1978	39	26	57	41
1979	30	30	54	34
1980	23	35	52	29
1981	18	21	45	23
1982	15	17	52	22
1983	[1] 15	[2] 14	[3] 21	16
1984	[1] 20	[2] 35	[3] 29	23
1985	[1] 24	[2] 27	[3] 32	26

[1] Assets include $17.52 billion lent by the DI and HI trust funds.

[2] Assets exclude $5.08 billion lent to the OASI trust fund.

[3] Assets exclude $12.44 billion lent to the OASI trust fund.

Source: Social Security Statistical Supplement, 1983 and various trustees' reports.

APPENDIX B. DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF THE AGED

This appendix presents selected data on the demographic and economic characteristics of the elderly. The data presented here typically cover several time periods and describes the number (table 1), marital status (table 2), living arrangements (table 3), labor force participation (table 4), poverty status (table 5), income (tables 6–18), assets and tax status (tables 18–23) of the elderly, and tables 24–26 present characteristics of new retirees. Table 27 presents information on several deficit reduction options that would affect the elderly and disabled. The tables within the appendix are derived from the following sources:

(1) Social Security Administration, New Beneficiary Survey, 1982;

(2) Special tabulations of the March 1985 CPS survey by the Congressional Research Service and the Congressional Budget Office;

(3) U.S. Bureau of the Census, Current Population Reports, series P–20, P–60, and P–23, and unpublished data;

(4) Social Security Administration, Survey of Income and Program Participation, 1979;

(5) Congressional Budget Office simulations based on the March 1984 Current Population Survey;

(6) 1981 Employment and Training Report of the President; and

(7) Economic Report of the President, February, 1985.

The data source for each table is noted at the bottom of each table.

Some definitions that may be useful for reading the tables:

(1) Aged and elderly refer to anyone 65 years and older.

(2) OASDI and social security are interchangeable terms.

(3) Supplemental security income, at times, is abbreviated SSI.

Population

Table 1 illustrates that the elderly as a percentage of the population will increase from 6.8 percent in 1940 to 13.0 percent in the year 2000. The actual number of individuals 65 and over will almost quadruple from 9 million in 1940 to 36.2 million in the year 2000. In addition, the percentage of the population age 75 and over, particularly women, will grow at an even faster rate. For example, the percentage of the population that is female and over age 75 was 1.1 percent in 1940 and will climb to 4.2 percent by the year 2000. In actual numbers, this is an increase from 1.4 million to 11.7 million.

Demographic information

Table 2 presents information on the marital status of aged individuals over time. The significant feature of the table is the large percentage of women 75 years and older who are widowed. As shown in table 3, 67.8 percent of widowed women age 65 and older lived alone in 1985. Compared to 1970, the number of widowed women living alone has increased from 3.3 million to 5.4 million.

Table 4 presents information on the labor force participation rates of individuals age 55 and older. Since 1950, the labor force participation of men in this age group has steadily declined. For example, the rate has gone from 86.9 percent for men age 55 to 64 to 67.9 percent in 1985. The rate for men 65 and older has declined from 45.8 percent to 15.8 percent. The labor force participation rates for women are significantly different. The labor force participation for women age 55 to 64 has increased from 27.0 percent in 1950 to 42.0 percent in 1985. The rate for women 65 and over has decreased from 9.7 percent in 1950 to 7.3 percent in 1985.

TABLE 1.—ELDERLY POPULATION AS PERCENT OF TOTAL POPULATION AND DISTRIBUTION OF ELDERLY BY AGE AND SEX, 1940 TO 1980, AND PROJECTION 1990 TO 2025, SELECTED YEARS

	1940	1950	1960	1970	1980	1990[1]	2000[1]	2025[1]
Population 65 years and older (in thousands)	9,019	12,257	16,207	20,101	26,364	32,570	36,184	60,768
Percent of total population	6.8	8.2	9.0	9.9	11.2	12.6	13.0	19.3
Certain age and sex groupings as a percent of the population 65 years and older:								
Total 65 years and older	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Men 65 and older	48.8	46.8	45.1	42.0	40.1	39.7	39.7	42.4
Men 65 to 74	35.1	32.7	31.0	27.0	26.0	24.9	22.7	26.3
Men 75 and older	13.7	14.1	14.1	15.0	14.1	14.8	17.0	16.1
Women 65 and older	51.2	53.2	54.9	58.0	59.9	60.3	60.3	57.6
Women 65 to 74	35.6	35.9	35.9	34.8	33.8	32.0	27.9	30.3
Women 75 and older	15.6	17.3	19.0	23.2	26.1	28.3	32.4	27.3

[1] Projection.

Note: Population data for 1940 and 1950 include coterminous U.S. only; 1960 and 1970 refer to total U.S. population; 1980 to 2025 refer to total U.S. plus the outlying areas and include an adjustment for the population under count.

Source: 1940 to 1970, U.S. Bureau of the Census, U.S. Census of Population, 1940, 1960, and 1970; 1980 to 2025, 1984 Annual Reports of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds, and unpublished estimates from the Office of the Actuary, Social Security Administration.

TABLE 2.—MARITAL STATUS OF AGED INDIVIDUALS,[1] BY SEX AND AGE, 1968, 1978, AND 1985

	1968		1978		1985	
	65 to 74	75 and over	65 to 74	75 and over	65 to 74	75 and over
Men:						
Number (in thousands)	5,096	2,776	6,080	3,090	7,259	3,755
Percent	100.0	100.0	100.0	100.0	100.0	100.0
Married, wife present	79.4	59.7	78.1	68.2	78.9	67.4
Married, wife absent	2.0	2.3	3.0	2.1	2.3	2.0
Widowed	10.8	30.3	9.7	23.0	9.3	22.7
Divorced	2.6	1.9	3.5	1.8	4.2	2.7
Never married	5.3	5.8	5.7	4.8	5.2	5.3
Women:						
Number (in thousands)	6,395	3,978	8,189	5,109	9,317	6,487
Percent	100.0	100.0	100.0	100.0	100.0	100.0
Married, husband present	45.6	20.5	46.2	21.6	49.1	22.8
Married, husband absent	1.5	.8	2.2	1.3	2.0	1.0
Widowed	43.3	70.2	41.2	69.3	38.9	67.7
Divorced	2.5	1.4	3.9	2.1	5.6	2.4
Never married	7.1	7.2	6.6	5.7	4.4	6.2

[1] Civilian noninstitutional population only.

Note: Details may not add to totals due to rounding.

Source: U.S. Bureau of the Census, Current Population Reports, series P–20, Nos. 187, 338, and 402, and unpublished data.

TABLE 3.—LIVING ARRANGEMENTS OF PERSONS AGED 65 AND OVER, 1970 AND 1985

[Civilian noninstitutionalized population, number in thousands]

Living arrangement	Total 65 and over	Percent	Widowed men	Percent	Widowed women	Percent
Total:						
1970	19,061	100.0	1,333	100.0	5,946	100.0
1985	26,818	100.0	1,523	100.0	8,012	100.0
In families:						
1970	13,347	70.0	499	37.4	2,386	40.1
1985	18,038	67.3	485	31.8	2,358	29.4
Living alone:						
1970	5,071	26.6	708	53.1	3,309	55.7
1985	8,112	30.2	932	61.2	5,431	67.8
Other:						
1970	645	3.4	126	9.5	251	4.2
1985	668	2.5	106	7.0	223	2.8

Source: Bureau of the Census, Current Population Reports, P–20, No. 376 and unpublished data.

TABLE 4.—CIVILIAN LABOR FORCE PARTICIPATION RATES [1] OF PERSONS 55 YEARS AND OVER, BY AGE AND SEX, SELECTED YEARS, 1950–85

Age	1950	1955	1960	1965	1970	1975	1980	1985
Men:								
55 to 64	86.9	87.9	86.8	84.6	83.0	75.8	72.3	67.9
55 to 59	(2)	92.5	91.6	90.2	89.5	84.4	81.9	79.6
60 to 64	(2)	82.5	81.1	78.0	75.0	65.7	61.0	55.6
60 to 61	(2)	(2)	(2)	84.8	82.6	75.2	71.8	68.9
62 to 64	(2)	(2)	(2)	73.2	69.4	58.8	52.8	46.1
65 and over	45.8	39.6	33.1	27.9	26.8	21.7	19.1	15.8
Women:								
55 to 64	27.0	32.5	37.2	41.4	43.0	41.0	41.5	42.0
55 to 59	(2)	35.6	42.2	47.1	50.4	47.9	48.6	50.3
60 to 64	(2)	29.0	31.4	34.0	36.1	33.3	33.3	33.4
60 to 61	(2)	(2)	(2)	40.4	41.4	39.5	39.8	40.3
62 to 64	(2)	(2)	(2)	29.5	32.3	29.0	28.6	28.7
65 and over	9.7	10.6	10.8	10.0	9.7	8.3	8.1	7.3

[1] Civilian labor force as percent of civilian population.

[2] Data not available.

Source: Monthly Labor Review, November 1979, 1981 Employment and Training Report of the President; January issue of Employment and Earnings; and unpublished data from the Bureau of Labor Statistics.

Poverty status of elderly

Table 5 presents information on the poverty status of elderly individuals. Overall, 3.3 million, or 12.4 percent of the noninstitutionalized aged, were poor in 1984. In spite of the slightly lower incidence of poverty among the aged than for the population as a whole, poverty among the aged varied considerably. As with other groups, the poverty rate among the black aged was higher than that of the white aged—31.7 percent compared to 10.7 percent, respectively. Unrelated aged individuals, who generally tend to be older than aged persons living in families and are more likely to be female, had a poverty rate (24.2 percent), over three and one-half times greater than that of aged persons living in families (6.7 percent). White unrelated individuals had a poverty rate of 21.4, while black unrelated individuals had a rate of 52.5 percent. Women, who accounted for 58.9 percent of the noninstitutionalized aged population, accounted for 71.2 percent of the aged poor.

TABLE 5.—CHANGES IN POVERTY STATUS OF ALL PERSONS, AND THE ELDERLY BY SEX, RACE, AND FAMILY STATUS, SELECTED YEARS: 1959 TO 1984

[Percent below the poverty level]

	1959	1966	1970	1975	1980	1983 [2]	1984 [2]
All persons	22.4	14.7	12.6	12.3	13.0	15.2	14.4
Persons 65 years old and over							
Both sexes	35.2	28.5	24.5	15.3	15.7	14.1	12.4
Men	N.A.	23.7	19.0	11.4	10.9	10.0	8.7
Black men [1]	N.A.	52.2	41.3	31.0	31.5	28.3	25.9
Heads of household	60.4	50.0	39.2	26.0	25.0	21.3	19.6
Unrelated individuals	77.5	72.7	59.7	51.8	45.4	45.9	43.4
White men [1]	N.A.	21.3	17.0	9.5	9.0	8.2	7.2
Heads of households	26.8	18.7	13.8	7.1	6.9	6.1	5.2
Unrelated individuals	56.8	41.3	36.0	23.8	21.1	18.5	17.3
Women	N.A.	32.1	28.4	18.1	19.0	17.0	15.0
Black women [1]	N.A.	57.3	53.2	40.2	42.6	41.7	35.6
Wives	57.7	51.9	41.8	23.8	23.5	17.6	17.6
Unrelated individuals	84.6	83.9	79.2	65.8	66.6	63.6	56.6
White women [1]	N.A.	30.3	26.5	16.1	16.8	14.7	13.1
Wives	28.9	20.2	14.0	7.2	7.0	6.3	5.3
Unrelated individual	61.8	55.2	47.5	29.1	29.3	24.5	22.5

[1] Total includes other types of family members not separately designated.

[2] The poverty definition used to produce the estimates for 1981 and years after changed slightly from previous years. If the new method were used for 1980, the heading "All persons" would read 13.2 percent below the poverty level, not 13.0 percent. In 1984, a new method of imputing missing values was utilized and new population weights were used. A comparable number for 1983 of the poverty rate for all persons was 15.2 percent.

N.A.—Not available.

Sources: U.S. Bureau of the Census, Current Population Reports series P–60 referring to the population below the poverty level, various years in series; unpublished data.

Income of the elderly

Tables 6 and 7 present data for aged individuals living in families. In parallel fashion, tables 8 and 9 present information for individuals living alone (technically unrelated individuals). Table 6 presents the percentage of aged families (unrelated individuals) classified on the basis of total income to the poverty threshold with income from various sources. For example, table 6 shows that 27.3 percent of poor families had income from earnings. Poor (the second to last column in table 6) is defined in all of these tables as having income less than the poverty threshold. Nonpoor are all families (unrelated individuals) with incomes above the poverty threshold.

Table 7 presents the percent of total income which is comprised of various types of income where families (unrelated individuals) are again classified on the basis of total income to the poverty threshold. For example, from table 7 we learn that 13.3 percent of total family income for poor families is comprised of earnings as compared to 37.2 percent for nonpoor families. Pension income accounts for 3.1 percent of total income received by poor families while it comprises 12.3 percent for nonpoor families.

Elderly unrelated individuals are more than three times as likely to be living in poverty (24.2) as compared to families with an aged member (7.2). The percentage of single elderly individuals below 125 percent of the poverty threshold is 40.0 percent. This compares to 12.5 for families with an elderly member and to 17.0 percent for families without an elderly member.

Overall, about half of all families with an aged member had earnings (table 6). About 92 percent also received social security or railroad retirement. Thus, at least 40 percent of all families with an aged member received both retirement and earned income during the year. In some cases, these families may consist of an older retiree, typically a male with a younger spouse who may still be working. In other cases, a single aged person may live with children or relatives who are actively involved in the labor force.

Nonpoor families with an aged member were more likely to have income from earnings than were poor families—51 percent compared to 27 percent, respectively.

Retirement income in the form of social security and pensions differed markedly between the poor and nonpoor. Receipt of social security was somewhat higher for nonpoor (93 percent) than for poor (83 percent) families with an aged member.

Pension income was considerably higher among nonpoor than poor aged. Approximately 47 percent of the nonpoor aged in families received pension income, compared to 10 percent of the poor. Since retirement income is linked to prior work experience and earnings, it is likely that most nonpoor aged had higher earnings when they worked than those that are poor.

Income from savings and investments, in the form of interest and dividends, was a significant part of the nonpoor aged families' total income, accounting for 21 cents out of every dollar received.[1] About 78 percent of these families reported income in the form of interest and dividends.

In comparison to the nonpoor, poor families with an aged member relied mainly upon social security and cash public assistance, presumably SSI, for income support. About 36 percent of these poor families received cash public assistance. Among this group, an average of 59 cents out of every dollar came from social security, and 17 cents from cash public assistance. Nearly one-third of these families received food stamps, which, on average, added an additional 6 cents to every dollar of income received.

The pattern of income receipt among aged unrelated individuals was, with few exceptions, very similar to that of aged persons in families. Only about 16 percent of nonpoor aged and 3 percent of poor aged unrelated individuals reported income from earnings. Income from interest and dividends was more important for the nonpoor, accounting for 36 percent of their total income, on average, compared to 3 percent for the poor.

---

[1] Withdrawals from savings are not included as income on the CPS. For the aged in particular, dissaving may provide an important means of maintaining a desired level of consumption.

Among poor aged unrelated individuals, the contribution of food stamps to total income was much smaller (about 3 cents for each dollar of cash income) than that of the aged poor living in families (about 6 cents out of each dollar of cash income).

TABLE 6.—PERCENT OF FAMILIES WITH ANY MEMBER AGE 65 OR OVER WITH INCOME FROM VARIOUS SOURCES, BY THE RATIO OF TOTAL INCOME TO THE POVERTY THRESHOLD,[1] 1984

	Ratio of total income to poverty threshold									
	Under 0.50	0.50 to 0.74	0.75 to 0.99	1.00 to 1.24	1.25 to 1.49	1.50 to 1.99	2.00 to 2.99	3.00 and over	Poor	Nonpoor
Number of families (in thousands)	(172)	(235)	(431)	(622)	(671)	(1,517)	(2,660)	(5,376)	(839)	(10,847)
Percent of families	1.5	2.0	3.7	5.3	5.7	13.0	22.8	46.0	7.2	92.8
Earnings	31.0	27.3	25.9	27.6	28.7	36.0	46.0	63.4	27.3	51.1
OASDI, railroad retirement	58.8	87.1	90.2	95.2	94.3	95.6	95.4	90.7	82.9	93.0
Pensions	11.1	9.1	11.0	12.2	24.8	35.6	51.5	54.3	10.5	46.7
Unemployment compensation, workers compensation, veterans payments	6.5	9.2	10.7	12.9	9.9	12.4	11.5	8.9	9.4	10.3
AFDC, SSI, general assistance	26.7	41.8	35.6	23.8	13.9	8.9	5.3	2.4	35.5	6.0
Child support, alimony	6.9	6.8	2.5	6.0	4.0	4.8	4.5	5.4	4.6	5.0
Interest, dividends	30.3	21.4	31.8	39.2	50.2	60.2	79.5	91.1	28.6	78.4
Food stamps	27.6	35.2	30.2	21.0	7.5	3.3	1.4	.5	31.1	2.7

---

[1] Based on census ("Orshansky") poverty levels.

Source: March 1984 Current Population Survey (CPS). Table prepared by CRS.

BEST COPY AVAILABLE

TABLE 7.—PERCENT OF TOTAL FAMILY INCOME [1] FROM VARIOUS SOURCES, BY THE RATIO OF TOTAL INCOME TO THE POVERTY THRESHOLD,[2] FOR FAMILIES WITH ANY MEMBER AGE 65 OR OVER, 1984

	Ratio of total income to poverty threshold								Poor	Nonpoor
	Under 0.50	0.50 to 0.74	0.75 to 0.99	1.00 to 1.24	1.25 to 1.49	1.50 to 1.99	2.00 to 2.99	3.00 and over		
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Earnings	22.1	10.7	13.0	14.9	13.7	20.0	28.2	41.9	13.3	37.2
OASDI, railroad retirement	45.8	57.4	62.0	64.3	67.4	59.0	44.3	18.7	59.1	27.3
Pensions	5.0	3.6	2.6	3.1	6.0	9.1	12.8	12.9	3.1	12.3
Unemployment compensation, workers compensation, veterans payments	3.7	3.3	2.9	3.9	2.0	2.5	1.8	.6	3.1	1.0
AFDC, SSI, general assistance	18.7	20.5	14.6	9.0	4.6	2.1	.9	.1	16.6	.6
Child support, alimony	1.0	1.2	.5	.8	.7	.8	.5	.7	.7	.7
Interest, dividends	3.6	3.3	4.4	3.9	5.6	6.6	11.5	25.0	4.0	20.9
Food stamps [3]	(16.3)	(9.2)	(3.5)	(1.3)	(.4)	(.1)	(.1)	(.0)	(6.3)	(.1)

[1] Only for families with non-negative income.

[2] Based on census ("Orshansky") poverty levels.

[3] The cash value of food stamps was not included as part of total income, either for purposes of determining poverty status, or in the base for calculating the percentage share of total income. The numbers in this row for food stamps represent the added percentage contribution to total cash income.

Source: March 1984 Current Population Survey (CPS). Table prepared by CRS.

TABLE 8.—PERCENT OF UNRELATED INDIVIDUALS AGE 65 AND OVER WITH INCOME FROM VARIOUS SOURCES, BY THE RATIO OF TOTAL INCOME TO THE POVERTY THRESHOLD,[1] 1984

	Ratio of total income to poverty threshold									
	Under 0.50	0.50 to 0.74	0.75 to 0.99	1.00 to 1.24	1.25 to 1.49	1.50 to 1.99	2.00 to 2.99	3.00 and over	Poor	Nonpoor
Number of unrelated individuals (in thousands)	(224)	(474)	(1,425)	(1,386)	(1,020)	(1,178)	(1,338)	(1,719)	(2,123)	(6,640)
Percent of unrelated individuals	2.6	5.4	16.3	15.8	11.6	13.4	15.3	19.6	24.2	75.8
Earnings	3.4	3.8	2.8	6.0	9.6	14.4	20.7	23.2	3.1	15.5
OASDI, railroad retirement	54.7	90.0	93.2	96.9	97.5	97.4	95.1	89.1	88.4	94.7
Pensions	6.5	.7	5.2	15.1	26.4	37.2	50.8	52.0	4.4	37.5
Unemployment compensation, workers compensation, veterans payments	2.4	4.3	7.9	9.6	5.2	5.9	6.9	5.1	6.5	6.6
AFDC, SSI, general assistance	11.4	21.8	41.6	12.6	6.8	1.4	.2	.6	34.0	4.1
Child support, alimony	5.7	2.1	1.7	2.0	2.8	4.5	3.4	2.9	2.2	3.1
Interest, dividends	32.8	29.1	28.9	52.3	66.2	80.4	88.1	94.9	29.4	77.7
Food stamps	13.7	19.7	31.8	5.0	1.1	1.1	.3	.1	27.2	1.5

[1] Based on census ("Orshansky") poverty levels.

Source: March 1984 Current Population Survey (CPS). Table prepared by CRS.

BLANK PAGE

BLANK PAGE

BLANK PAGE

TABLE 9.—PERCENT OF TOTAL FAMILY INCOME [1] FROM VARIOUS SOURCES, BY THE RATIO OF TOTAL INCOME TO THE POVERTY THRESHOLD,[2] FOR UNRELATED INDIVIDUALS AGE 65 OR OVER, 1984

	Ratio of total income to poverty threshold								Poor	Nonpoor
	Under 0.50	0.50 to 0.74	0.75 to 0.99	1.00 to 1.24	1.25 to 1.49	1.50 to 1.99	2.00 to 2.99	3.00 and over		
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Earnings	3.2	1.1	.5	2.0	2.9	4.1	8.5	10.1	.7	7.8
OASDI, railroad retirement	66.7	80.4	78.1	80.7	76.2	64.6	45.0	20.7	78.2	40.3
Pensions	6.6	.5	1.2	3.6	7.2	9.9	17.2	15.6	1.3	13.5
Unemployment compensation, workers compensation, veterans payments	1.5	1.7	2.1	2.7	1.4	2.3	2.0	1.0	2.0	1.5
AFDC, SSI, general assistance	9.7	12.0	14.8	4.8	2.2	.4	.1	.0	14.0	.7
Child support, alimony	3.3	.6	.3	.5	.5	1.0	.6	.6	.4	.6
Interest, dividends	9.1	3.7	3.1	5.7	9.6	17.8	26.5	51.9	3.4	35.6
Food stamps [3]	(4.0)	(3.0)	(2.3)	(.3)	(.1)	(.0)	(.0)	(.0)	(2.5)	(.0)

---

[1] Only for families with non-negative income.

[2] Based on census ("Orshansky") poverty levels.

[3] The cash value of food stamps was not included as part of total income, either for purposes of determining poverty status, or in the base for calculating the percentage share of total income. The numbers in this row for food stamps represent the added percentage contribution to total cash income.

Source: March 1984 Current Population Survey (CPS). Table prepared by CRS.

Tables 10 through 12 provide data from the Current Population Survey for 1984. Table 10 shows the distribution of total family income which is comprised of social security income. The tables include all families where the head is aged 65 and over including unrelated individuals as well. For example, for elderly families in poverty, social security represents over 90 percent of their income in 44.8 percent of such families. For elderly families above three times poverty, less than 1 percent of such families have 90 percent or more of their income from social security.

Table 11 presents similar information except that it shows the percent of family income derived from supplemental security income (SSI) and social security benefits combined.

Table 12 presents the number of families with different combinations of SSI, social security or railroad retirement, and food stamp income. For families in poverty, 87.8 percent receive social security or railroad retirement, 31.6 percent receive SSI, and 28.1 percent receive food stamp benefits. Only 15.2 percent of elderly families under poverty receive all three types of income.

TABLE 10.—SOCIAL SECURITY INCOME AS A PERCENT OF TOTAL FAMILY INCOME,[1] BY RATIO OF TOTAL INCOME TO THE POVERTY THRESHOLD, FOR FAMILIES[2] WITH AN AGED HEAD, 1984

[In percent]

	Ratio of total income to poverty threshold										
	Total	Under 0.50	0.50 to 0.74	0.75 to 0.99	1.00 to 1.24	1.25 to 1.49	1.50 to 1.99	2.00 to 2.99	3.00 and over	Poor	Nonpoor
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Social security as a percent of total income:											
1 to 24.9	16.0	....	1.7	.7	1.3	1.7	5.0	8.9	40.6	.9	18.7
25 to 49.9	25.3	4.8	6.3	6.5	9.7	8.3	14.4	36.0	41.9	6.2	28.8
50 to 79.9	27.4	12.7	20.1	28.9	26.7	35.4	46.5	44.2	8.6	24.8	27.9
80 to 89.9	7.2	6.6	8.5	12.8	13.4	16.7	13.0	4.5	.1	11.0	6.5
90 or more	17.6	[3] 30.4	53.4	44.3	45.8	34.6	18.3	2.7	.2	44.8	12.8
Percent of families with social security income	93.6	54.4	89.9	93.1	96.8	96.7	97.3	96.4	91.3	87.7	94.7
Percent of families without social security income	6.4	45.6	10.1	6.9	3.2	3.3	2.7	3.6	8.7	12.3	5.3

[1] For families with non-negative income only.

[2] Includes unrelated individuals living alone.

[3] The number 30.4 in the second column means that 30.4 percent of families with a head over age 65 with total incomes less than 50 percent of poverty depend upon social security benefits for 90 percent or more of their income.

Source: March 1985 Current Population Survey (CPS). Table prepared by CRS.

TABLE 11.—SOCIAL SECURITY AND SUPPLEMENTAL SECURITY INCOME AS A PERCENT OF TOTAL FAMILY INCOME,[1] BY RATIO OF TOTAL INCOME TO THE POVERTY THRESHOLD, FOR FAMILIES[2] WITH AN AGED HEAD, 1984

	Ratio of total income to poverty threshold										
	Total	Under 0.50	0.50 to 0.74	0.75 to 0.99	1.00 to 1.24	1.25 to 1.49	1.50 to 1.99	2.00 to 2.99	3.00 and over	Poor	Nonpoor
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Social security and SSI as a percent of total income:											
1 to 24.9	15.9	....	1.8	.6	1.4	1.2	4.6	9.0	40.6	.8	18.7
25 to 49.9	24.5	4.2	3.7	3.5	7.1	7.2	13.7	35.8	42.0	3.7	28.2
50 to 79.9	24.9	11.6	13.9	13.5	21.0	32.7	46.2	44.6	8.6	13.4	27.0
80 to 89.9	6.4	4.2	5.2	7.6	12.6	16.6	13.0	4.5	.1	6.6	6.4
90 or more	23.2	[3] 41.8	72.0	73.7	56.3	39.8	20.1	2.9	.2	69.4	14.9
Percent of families with social security and/or SSI income	94.9	61.7	96.6	99.0	98.4	97.5	97.5	96.8	91.5	93.9	95.1
Percent of families without social security or SSI income	5.1	38.3	3.4	1.0	1.6	2.5	2.5	3.2	8.5	6.1	4.9

[1] For families with non-negative income only.

[2] Includes unrelated individuals and elderly individuals living alone.

[3] The number 41.8 in the second column means that 41.8 percent of families with a head over age 65 with total incomes less than 50 percent of poverty depend upon social security and/or SSI benefits for 90 percent or more of their income.

Source: March 1985 Current Population Survey (CPS). Table prepared by CRS.

TABLE 12.—RECEIPT OF SOCIAL SECURITY, SUPPLEMENTAL SECURITY INCOME, FOOD STAMPS, AND COMBINATIONS THEREOF, AMONG FAMILIES[1] WITH AN AGED HEAD CLASSIFIED BY FAMILY MONEY INCOME AS A PERCENT OF THE POVERTY THRESHOLD

Type of benefit	Less than 100 percent		100 to 149.9 percent	
	Number (in thousands)	Percent	Number (in thousands)	Percent
Social security[2]	2,489	87.8	3,408	96.8
SSI	896	31.6	413	11.7
Food stamps	798	28.1	225	6.4
Social security only[3]	1,546	54.5	2,936	83.4
SSI only[3]	62	2.2	31	0.9
Food stamps only[3]	32	1.1	5	0.1
Social security and food stamps[4]	222	7.8	103	2.9
Social security and SSI[4]	290	10.2	265	7.5
SSI and food stamps[4]	113	4.0	12	0.3
All three income sources	431	15.2	105	3.0
No social security, SSI, or food stamps	140	4.9	66	1.9
Total	2,836	....	3,521	....

[1] Includes unrelated individuals and elderly individuals living alone.

[2] Includes railroad retirement.

[3] Row 4 which is labeled "social security only" means the family only receives social security and does not receive SSI or food stamps. The family could be receiving other types of income. The same is true of rows 5 and 6.

[4] Family receives only the two types of income specified but not the third. The family could be receiving other sources of income than the three mentioned.

Source: March 1985 Current Population Survey (CPS). Table prepared by CRS.

Antipoverty effectiveness of transfer programs

Table 13 explores the effectiveness of various income sources in addressing poverty. Families differ markedly by the combinations of income upon which they rely for support. For example, families with an aged member and aged unrelated individuals typically rely upon a combination of income from social security, pensions, returns on investments and saving, as well as earnings. In combination, these sources offer the potential for income support above the poverty threshold. However, as the sole source of income support, none of these sources may be deemed adequate.

One way of assessing the antipoverty effectiveness of various income sources is to estimate the number of persons who would be counted as poor if a particular source of income were not received. The additional number of persons that are counted as poor provides an estimate of the number of people lifted out of poverty by a particular income source. For example, the effect of social security upon poverty can be seen by comparing the number who would be counted as poor if they did not receive social security, with the number of poor after social security income is counted (column 3 compared to column 1 of table 13).

Another way of assessing the effectiveness of various income sources upon poverty is by estimating the degree to which those sources reduce the gap between a poor family's income and the poverty threshold (bottom 3 rows of table 13). This concept is sometimes known as the "poverty gap" or the "poverty income deficit." A cash transfer program which is highly targeted on the poor may do little to eliminate poverty—that is, to reduce the number who are counted as poor—but such a program may still have a very real impact by reducing the degree of poverty as viewed in terms of the poverty gap.

Table 13 shows the relative antipoverty effect of various income sources in 1984 upon the aged. For example, the first column shows the number of elderly persons who were poor, and the poverty rate, in 1984. The second column shows how many persons would be poor if they had only earnings and miscellaneous sources of income (interest, dividends, alimony and child support) upon which to depend. The third column shows how many persons would be counted as poor if they had all sources of income currently available to them, except for social security and railroad retirement. The relative effect of each source can be seen by comparing the number in poverty under the alternate income definitions with the first column. For purposes of illustration, the cash value of food stamps is also included, even though food stamps are not included as income under the official definition of poverty. The last three rows of table 13 show the aggregate poverty gap (in millions of dollars) and average poverty gap[2] per person. The aggregate poverty gap is the amount of dollars that would be required to give all persons in poverty an income equal to the poverty line.

Private and government pensions may be viewed as either deferred compensation, provided by employers, or as savings for retirement. Pension benefits are closely related to the labor market, usually being directly or indirectly related to years of service and wage and salary levels attained when individuals were working. Private and government pensions played an important role in reducing poverty among the aged. In 1984, about one-fifth of total pension benefits went to persons who were poor before they received them. These benefits reduced the incidence of poverty among the aged by about 22 percent, and reduced the aggregate poverty gap by nearly 30 percent.

Social insurance programs provide another tier of income support, helping to protect covered individuals from loss of work related income resulting from a number of specific risks, such as old age, unemployment, and work related disabilities. Social insurance programs are second only to earnings in terms of their effect upon poverty. Among these programs, social security is the largest. In fiscal year 1984, social security outlays amounted to $178.2 billion. While only about 50 percent of social security payments[3] went to persons who were poor before they received them (the pretransfer poor), social security had the greatest impact upon reducing poverty other than earnings. Social security reduced the aggregate povery gap by nearly 90 percent for persons age 65 and over. Social security income lifted approximately 9.4 million older persons out of poverty. Social security reduced the poverty rate among the aged from 47.6 percent to 12.4 percent—a reduction of 73.9 percent.

---

[2] The average poverty gap per person is the total family poverty gap divided by the number of family members.

[3] Includes railroad retirement.

TABLE 13.—NUMBER OF PERSONS AGE 65 AND OVER IN POVERTY AND THE POVERTY GAP UNDER VARIOUS INCOME CONCEPTS, 1984

	Total income official poverty measure	Only earnings, dividends, interest, and misc. income	Total income less—				Total income plus—food stamps
			Social security, railroad retirement	Pensions	Unemployment compensation, workers compensation, veterans pension	AFDC, SSI, general assistance	
Poor persons age 65 and over (in thousands)	3,330	16,073	12,763	4,279	3,645	3,817	3,174
Poverty rate	12.4	59.9	47.6	16.0	13.6	14.2	11.8
Percentage reduction in poverty			−73.9	−22.2	−8.6	−12.8	−5.2
Poverty gap:							
Persons age 65 and over (aggregate gap in millions)	$3,621	$48,656	$33,748	$5,127	$4,181	$5,728	$3,361
Per elderly poor person [1]	$1,088	$3,027	$2,644	$1,198	$1,147	$1,501	$1,059
Percentage reduction in aggregate gap			−89.3	−29.4	−13.4	−36.8	−7.7

---

[1] The average poverty gap per poor person is the total family poverty gap divided by the number of family members.

Source: March 1985 Current Population Survey (CPS). Table prepared by CRS.

Table 14 displays the effectiveness of social insurance and means-tested transfer programs in eliminating poverty among the elderly over the 6-year period between 1979 and 1984. For a more complete description of how the table was constructed, see Appendix J. The table shows that over this period the antipoverty effectiveness of both social insurance and means-tested programs steadily improved for the elderly. Despite an increase in the overall elderly population, the number of individuals in poverty and the poverty gap declined during this period. The number of individuals removed from poverty by social insurance programs increased from 6,552,000 to 7,390,000 between 1979 and 1984. The percentage of elderly individuals removed from poverty due to social insurance increased from 68.1 percent to 72.0 percent from 1979 to 1984. The number removed from poverty by means-tested transfer programs increased from 666,000 to 758,000 over the same period. After both social insurance and means-tested transfers are taken into account, the poverty gap declined from $3.2 billion in 1980 to $2.4 billion in 1984.

TABLE 14.—ANTIPOVERTY EFFECTIVENESS OF CASH AND NONCASH TRANSFERS (INCLUDING FEDERAL INCOME AND PAYROLL TAXES) FOR ALL UNITS WITH ALL MEMBERS 65 OR OLDER, 1979–84

	1979	1980	1981	1982	1983	1984
Number of individuals in poverty (in thousands):						
Before transfers	9,627	10,142	10,190	10,126	10,151	10,268
Plus social insurance	3,075	3,235	3,136	3,037	3,062	2,878
Plus cash means-tested transfers	2,746	2,932	2,870	2,833	2,782	2,560
Plus food and housing	2,409	2,530	2,434	2,474	2,394	2,120
Less Federal taxes	2,414	2,537	2,453	2,481	2,406	2,126
Number of individuals removed from poverty due to (in thousands):						
Social insurance	6,552	6,907	7,054	7,089	7,089	7,390
Cash and in-kind means-tested transfers and Federal taxes	661	698	683	756	656	752
Percent of individuals removed from poverty due to:						
Social insurance	68.1	68.1	69.2	70.0	69.8	72.0
Means-tested transfers and Federal tax policy	21.5	21.6	21.8	18.3	21.4	26.1
Poverty gap (millions of 1984 dollars):						
Before transfers	29,380	31,834	31,859	31,756	31,466	31,712
Plus social insurance	4,901	5,045	4,854	5,040	4,906	4,468
Plus cash means-tested transfers	3,271	3,342	3,370	3,597	3,213	2,816
Plus food and housing	2,822	3,189	2,831	3,135	2,786	2,376
Less Federal taxes	2,829	3,198	2,838	3,142	2,796	2,381

TABLE 14.—ANTIPOVERTY EFFECTIVENESS OF CASH AND NONCASH TRANSFERS (INCLUDING FEDERAL INCOME AND PAYROLL TAXES) FOR ALL UNITS WITH ALL MEMBERS 65 OR OLDER, 1979–84—Continued

	1979	1980	1981	1982	1983	1984
Percentage reduction in poverty gap due to:						
Social insurance	83.8	84.2	84.8	84.1	84.4	85.9
Means-tested transfers and Federal tax policy	42.3	43.4	41.5	37.7	43.0	46.7
Poverty rate (in percent):						
Before transfers	61.0	61.4	59.9	58.5	57.1	57.5
Plus social insurance	19.5	19.6	18.4	17.6	17.2	16.1
Plus cash means-tested transfers	17.4	17.7	16.9	16.4	15.7	14.3
Plus food and housing	15.3	15.3	14.3	14.3	13.5	11.9
Less Federal taxes	15.3	15.4	14.4	14.3	13.5	11.9

Source: Congressional Budget Office and Committee staff.

TABLE 15.—PERCENTAGE DISTRIBUTION OF SELECTED SOURCES OF INCOME RECEIVED BY FAMILIES WITH AN AGED MEMBER, BY FAMILY MONEY INCOME AS A RATIO OF THE POVERTY LEVEL, 1984

[In percent]

Type of income	Percent received by families with aged individuals	Ratio of total income to poverty threshold								Poor	Nonpoor
		Under 0.50	0.50 to 0.74	0.75 to 0.99	1.00 to 1.24	1.25 to 1.49	1.50 to 1.99	2.00 to 2.99	3.00 and over		
Total income	17.1	0.2	0.7	2.3	3.3	3.4	7.4	16.2	66.5	3.2	96.8
Social security and railroad retirement	83.2	.3	1.6	5.3	7.7	7.8	14.2	22.9	40.1	7.2	92.8
SSI	46.5	2.4	7.9	31.4	19.1	11.1	10.6	9.9	7.7	41.7	58.3
AFDC and general assistance	4.6	3.7	23.7	20.4	21.7	6.3	7.4	12.7	4.1	47.8	52.2
Food stamps	9.3	12.1	23.5	34.7	13.1	4.9	5.0	4.1	2.6	70.2	29.8
Unemployment compensation, workers compensation, and veterans payments	17.3	.5	1.5	4.7	9.1	5.0	15.5	26.1	37.7	6.6	93.4
Wages, salaries, farm, and self-employment	6.6	.1	.1	.3	.8	1.0	3.6	12.7	81.3	.6	99.4
Pensions	57.9	.1	.1	.3	.9	1.9	5.7	18.5	72.6	.5	99.5
Child support, alimony	9.1	.5	.9	1.2	3.1	3.1	9.6	14.1	67.5	2.6	97.4
Property income	48.0	.0	.1	.3	.7	1.1	3.3	10.6	83.8	.5	99.5

Note: This table shows for families with at least one aged member the percentage of selected sources of income received by families classified by poverty level. The first number in the first column, 17.1 percent, means that 17.1 percent of all income accrues to families that include an aged member. The next number in the first row means 0.2 percent of all income received by these families accrues to those families that have an income of less than 50 percent of the poverty level.

Source: March 1985 Current Population Survey (CPS). Table prepared by CRS.

TABLE 16.—PERCENTAGE DISTRIBUTION OF SELECTED SOURCES OF INCOME FOR ALL FAMILIES CLASSIFIED BY FAMILY MONEY INCOME AS A RATIO OF THE POVERTY LEVEL, 1984

[In percent]

Type of income	Total	Ratio of total income to poverty threshold								Poor	Nonpoor
		Under 0.50	0.50 to 0.74	0.75 to 0.99	1.00 to 1.24	1.25 to 1.49	1.50 to 1.99	2.00 to 2.99	3.00 and over		
Total income	100	0.4	0.8	1.4	1.8	2.2	5.5	15.1	72.8	2.6	97.4
Social security and railroad retirement	100	.6	2.2	5.9	7.8	7.9	14.2	22.7	38.8	8.7	91.3
SSI	100	3.7	14.4	26.5	18.2	9.5	10.1	8.1	9.5	44.6	55.4
AFDC and general assistance	100	29.0	34.3	17.1	6.9	4.1	3.7	3.2	1.7	80.4	19.6
Food stamps	100	41.3	26.7	15.5	6.8	3.6	2.8	2.4	.8	83.6	16.4
Unemployment compensation, workers compensation, and veterans payments	100	1.1	2.9	5.2	6.6	6.1	12.8	24.8	40.4	9.3	90.7
Wages, salaries, farm and self-employment	100	.2	.4	.8	1.2	1.7	4.8	15.0	75.8	1.4	98.6
Pensions	100	.1	.2	.5	1.1	2.0	5.6	17.2	73.2	.9	99.1
Child support alimony	100	1.8	2.9	4.2	4.5	5.8	10.1	20.4	50.5	8.8	91.2
Property income	100	.1	.2	.4	.6	.9	2.8	8.7	86.2	.8	99.2

Note: This table illustrates the percentage of selected sources of income distributed to families classified by poverty level. The second number in the second row means that 0.6 percent of all social security goes to families whose income is less than 50 percent of the poverty level. The last number in the second row says that 91.3 percent of social security benefits go to families that are nonpoor.

Source: March 1985 Current Population Survey (CPS). Table prepared by CRS.

Table 17 represents, for families varying by age of head, aggregate family income divided by the number of persons in such families. For example, the table shows that per capita income of families with an aged head was $10,197 in 1984, slightly more than that of all families ($9,626). From 1980 to 1984 real growth in per capita income of families with an aged head was substantially greater than that of all families (11.2 percent versus 4.0 percent). However, from 1975 to 1980 per capita income of aged families rose at a slightly slower rate than that of all families (4.1 percent versus 4.5 percent).

Table 18 shows the average income per household member before and after taxes for calendar year 1983. Taxes simulated in the study included Federal income taxes, State individual income taxes, property taxes on owner-occupied housing, and payroll taxes. They do not include sales or excise taxes.

As shown in the table, after-tax income of elderly individuals is exceeded only by households headed by individuals aged 50-64. The amount of taxes paid as a percent of income varied from 12.7 percent of income for household members in households headed by someone age 65 or older to 24.3 percent of income in households where the head was age 50-54. In using income per household member across different family types, it should be noted that most households headed by someone aged 65 or over are one- or two-member households and thus housing consumes a greater proportion of household income.

TABLE 17.—PER CAPITA FAMILY INCOME,[1] BY AGE OF FAMILY HEAD, FOR SELECTED YEARS

[In 1984 dollars]

Age of family head	Per capita family income			Percent change		
	1975	1980	1984	1975–80	1980–84	1975–84
All families	8,854	9,252	9,626	4.5	4.0	8.7
25 to 34	7,871	7,929	8,028	.7	1.2	2.0
35 to 44	7,721	8,468	9,011	9.7	6.4	16.7
45 to 54	10,039	10,444	11,030	4.0	5.6	9.9
55 to 64	11,790	12,444	12,610	5.5	1.3	7.0
65 and over	8,805	9,169	10,197	4.1	11.2	15.8

[1] Total family income divided by number of family members.

Source: Figures compiled by CRS from U.S. Census Bureau Reports (Series P–60) and unpublished data.

TABLE 18.—MEAN INCOME BEFORE AND AFTER TAX PER HOUSEHOLD MEMBER, 1983

	Income per household member		Taxes per household member	Taxes as a percent of income
	Before taxes	After taxes		
Age of householder:				
15–24	6,772	5,625	1,147	16.9
25–29	8,243	6,561	1,682	20.4
30–34	8,423	6.582	1,841	21.9
35–39	8,793	6,733	2,060	23.4
40–44	9,146	6,991	2,155	23.6
45–49	9,859	7,533	2,326	23.5
50–54	11,374	8,614	2,760	24.3
55–59	11,840	8,996	2,844	24.0
60–64	11,430	8,916	2,514	22.0
65 and over	9,292	8,113	1,179	12.7
All households	9,377	7,383	1,994	21.3

Source: Estimating After-Tax Money Income Distributions Using Data From the March Current Population Survey, P–23, No. 143, table 3.

Tax treatment of the elderly

Present law includes a number of provisions that have the effect of reducing or eliminating the burden of Federal income tax on individuals who are elderly, disabled, or unable to work on account of injury or layoff. Some of these special provisions are targeted to lower-income taxpayers; others reduce taxes for all taxpayers.

Partly as a result of these provisions, the majority of elderly individuals do not have any income tax liability under present law. In 1982, the U.S. population age 65 or over was 26.8 million. However, the number of individuals in this age group represented on tax returns filed in that year was 14.0 million. Only 11.4 million of these individuals had any tax liability. Thus, in 1982, about 48 percent of the elderly did not file a tax return, and 57 percent of the elderly had no income tax liability.

Present law provides an additional personal exemption ($1,040 for 1985) for an individual who is age 65 or older, or who is blind. An individual who is both age 65 or over and blind is entitled to claim two additional personal exemptions.

Present law also provides a nonrefundable income tax credit for individuals who are age 65 or over, or who have retired on permanent and total disability. For this purpose the definition of disability is identical to the standard used to determine eligibility for social security disability benefits. This credit is designed to provide tax benefits to individuals who receive only taxable retirement or disability income, or who receive a combination of taxable retirement or disability income plus social security benefits, that are generally comparable to the tax benefits provided to individuals who receive only social security benefits. Social security benefits are tax-exempt unless the individual's AGI (with certain modifications) exceeds $25,000 ($32,000, in the case of a joint return). See Section 2 of Part 1 for a more complete explanation.

The credit equals 15 percent of an amount which equals an initial base amount ($5,000 for individual filers), as specified in the statute, that is then reduced by the amount of certain tax-free income received by the taxpayer and by one-half of the taxpayer's AGI exceeding a specified threshold.

As a result of the credit and the additional personal exemption for the elderly, the tax threshold for elderly individuals exceeds the poverty level under present law. For a single elderly taxpayer, none of whose income consists of tax-free social security benefits, the tax threshold for 1986 is estimated to be $9,383; for an elderly couple, the threshold is estimated to be $14,450. These amounts are well above the estimated poverty levels for such individuals of $5,450 and $6,860, respectively.

Table 19 presents information on the number of tax returns filed, average AGI, and average taxes paid by elderly taxpayers in comparison with all taxpayers. The table is organized to show the distribution of returns and tax liability among categories of total AGI. For instance, the table shows that for elderly tax filers with an AGI in the range between $15,000 to $25,000, average taxes paid equaled $2,027. By comparison, taxpayers in general with AGI in the $15,000 to $25,000 bracket were liable to pay on average $2,288. The table also contains information on the average AGI found within a particular AGI category. For instance, among elderly taxpayers with AGI between $10,000 and $15,000, the average AGI was $12,372. For taxpayers with more than $40,000 in AGI, the average AGI for elderly filers was $82,465, as compared with an average of $64,663 for all tax filers.

TABLE 19.—NUMBER OF RETURNS AND AVERAGE TAXES FOR ELDERLY TAXPAYERS, BY SIZE OF ADJUSTED GROSS INCOME: 1982

AGI category	Number of returns (millions)	Average AGI	Average taxes
All taxpayers:			
Less than $10,000	17.4	6,703	391
$10,000 to $15,000	13.6	12,422	1,091
$15,000 to $25,000	19.0	19,682	2,288
$25,000 to $40,000	17.3	31,427	4,472
$40,000 or more	9.1	64,663	14,524
Total	76.4	23,463	3,598
Elderly taxpayers:			
Less than $10,000	2.4	7,471	313
$10,000 to $15,000	2.0	12,372	892
$15,000 to $25,000	2.1	19,114	2,079
$25,000 to $40,000	1.2	31,034	4,720
$40,000 or more	1.0	82,465	22,708
Total	8.7	23,272	4,065

Source: Internal Revenue Service, "Statistics of Income," 1982. Table prepared by the Congressional Budget Office.

Wealth status of the elderly

Tables 20 through 23 present information on the wealth status of elderly households. Table 20 shows that in 1979 the mean net worth (that is, wealth less unsecured debt) of households headed by an individual over 65 equalled $79,380. The largest source of the net worth of elderly households was ownership of financial assets (35 percent), followed by home equity (32 percent). Business equity, both farm and nonfarm, comprised only 7 percent of the net worth of the elderly. The mean in tables 20 and 21 include those households with zero assets.

Table 21 shows that elderly headed households had mean net worth in excess of that of any other age category, except households headed by an individual between 55 and 64. Within the category of elderly households, those headed by an individual aged 75 and over had significantly less net worth ($65,130) than those headed by an individual between 70 and 74 ($85,480) or an individual between 65 and 69 ($90,040).

Table 22 shows the distribution in 1983 of financial assets and home ownership by age of household head from 25 years of age and older. The mean financial holdings of households headed by an individual between 65 and 74 exceeds that of any other age category. However, mean financial asset holdings of households headed by an individual 75 years of age or older are substantially lower ($37,060) than those of households with an elderly head between 65 and 74 years old ($65,340).

Table 23 shows housing tenure for poor and nonpoor aged families and unrelated individuals. The table shows that the majority of poor families with an aged member (74 percent) and aged poor unrelated individuals (51 percent) owned their own home or lived with relatives in an owner occupied unit. In comparison, 87 percent of aged nonpoor families and 66 percent of aged nonpoor unrelated individuals owned their own home. About one in five (19.4 percent) poor aged unrelated individuals reported living in publicly supported housing (either public housing or rent subsidized housing). About 9 percent of aged nonpoor unrelated individuals lived in publicly supported housing.

TABLE 20.—PERCENTAGE COMPOSITION OF NET WORTH, MEAN AMOUNTS OF ASSETS, AND PERCENT HOLDING EACH TYPE OF ASSET, 1979

	Percentage composition	Mean amount	Percent holding asset
Age of householder 65 and over:			
Net worth [1]	100	$79,380	100
Wealth	101	79,930	99
Home equity	32	25,110	66
Financial assets	35	28,020	95
Liquid [2]	10	8,020	95
Nonliquid [3]	25	20,000	36
Business equity [4]	7	5,660	4
Other assets	18	14,090	18
Durable goods [5]	9	7,060	98
Unsecured debt [6]	1	540	39
Age of householder 75 and over:			
Net worth [1]	100	65,130	100
Wealth	101	65,530	100
Home equity	30	19,480	59
Financial assets	44	28,610	96
Liquid [2]	12	7,560	96
Nonliquid [3]	32	21,040	31
Business equity [4]	5	3,400	3
Other assets	13	8,640	16
Durable goods [5]	8	5,410	99
Unsecured debt [6]	1	400	28

[1] Net worth is defined as wealth minus unsecured debt.

[2] Liquid financial assets include cash, checking accounts, passbook savings accounts, U.S. savings bonds.

[3] Nonliquid financial assets include bonds, CDs, stocks, mutual fund shares.

[4] Business equity: farm and nonfarm.

[5] Durable goods include equity in vehicles plus market value of household durables.

[6] Unsecured debt includes installment and noninstallment debt, unpaid medical bills, and educational loans.

Source: Daniel B. Radner. "The Wealth and Income of Aged Households," 1984 American Statistical Association Proceedings, Social Statistics Section. Data developed from 1979 Income Survey Development Program file.

TABLE 21.—MEAN AND MEDIAN NET WORTH, BY AGE OF HOUSEHOLDER, 1979

	Net worth [1]	
	Mean	Median
Age of householder:		
All ages	$62,430	$25,770
Under 25	8,880	3,450
25 to 34	24,520	12,110
35 to 44	64,950	29,820
45 to 54	79,120	39,180
55 to 64	105,740	51,440
65 and over	79,380	38,720
65 to 69	90,040	47,300
70 to 74	85,480	45,440
75 and over	65,130	28,410

[1] Net worth is defined as wealth minus unsecured debt.

Source: Daniel B. Radner, "The Wealth and Income of Aged Households," 1984 American Statistical Association Proceedings, Social Statistics Section. Data developed from 1979 Income Survey Development Program File.

TABLE 22.—FINANCIAL ASSETS AND HOMEOWNERSHIP OF HOUSEHOLDS HOLDING SUCH ASSETS, BY AGE GROUP, 1983

Age of head (years)	Percent of households owning liquid assets	Liquid assets of those holding such assets [1]		Total financial assets of households holding such assets [2]		Percent of households with homeownership	Net equity of homeowner [3]	
		Mean	Median	Mean	Median		Mean	Median
Under 25	81	$1,970	$600	$2,650	$750	10	$18,870	$13,780
25 to 34	87	4,270	1,200	7,960	1,510	40	32,640	27,770
35 to 44	91	8,910	3,000	14,410	3,750	66	52,070	40,600
45 to 54	89	14,830	3,310	23,010	4,130	75	64,470	50,000
55 to 64	91	25,440	7,430	54,950	9,340	73	73,580	55,000
65 to 74	88	30,670	9,680	65,340	11,400	69	63,670	45,000
75 and over	86	26,480	7,890	37,060	10,350	57	47,760	40,000
45 and over:								
Head in labor force	93	20,960	6,230	42,790	8,200	76	68,390	53,770
Head retired	86	28,200	6,730	50,170	8,750	69	62,460	44,170

[1] Liquid assets include checking accounts, savings accounts, money market accounts, certificates of deposit, IRA and Keogh accounts, and savings bonds.

[2] Financial assets include liquid assets plus stocks, other bonds, nontaxable holdings (municipal bonds and shares in certain mutual funds), and trusts.

[3] Nonfarm homeowners.

Source: Economic Report of the President, 1985, page 169. Data supplied by Board of Governors of the Federal Reserve System.

TABLE 23.—HOUSING TENURE OF AGED, FAMILIES, AND UNRELATED INDIVIDUALS BY FAMILY TYPE AND POVERTY STATUS, 1984

	Total (in thousands)	Percent of total				
		Own housing	No cash rent	Rent housing		
				Total	Publicly supported	Not publicly supported
Any member age 65 or over:						
In families:						
Total	11,685	85.8	1.4	12.8	1.7	11.1
Poor	839	73.7	3.1	23.2	4.8	18.3
Nonpoor	10,847	86.7	1.3	12.0	1.4	10.6
Unrelated individuals:						
Total	8,763	62.0	2.9	35.1	11.3	23.8
Poor	2,123	51.2	4.8	44.0	19.4	24.6
Nonpoor	6,640	65.5	2.2	32.2	8.8	23.5

Source: March 1985 Current Population Survey (CPS). Table prepared by CRS.

Economic status of the newly retired

Tables 24 through 26 provide information on the economic status of the newly retired. Data for these tables are taken from the Social Security Administration's New Beneficiary Survey of 1982. New retirees in 1982 had their prime earning years during the relatively affluent decades of the 1950's, 1960's, and 1970's. Compared with those who retired in the 1960's and 1970's, the 1982 retirees have enjoyed higher earnings which has allowed them to save more and retire earlier. Generally they have experienced greater pension coverage and report a better general level of health.

Table 24 shows the percent of new retired workers receiving income from 4 major income sources and the median monthly income from those sources for those receiving such income. A relatively high proportion of the new retirees had income from pensions (56 percent of the married men and their wives and 42 percent of the unmarried persons). A large fraction had income from earnings (44 percent of the married men and their wives and 27 percent of the unmarried persons).[4]

Tables 25 and 26 report on the health status of new retirees. About two-thirds of the people receiving a first Social Security retired worker benefit between June 1980 and May 1981 reported in late 1982 that they had no health related work limitation. Approximately half the remaining beneficiaries (18 percent of the total) reported they were unable to work at all. Those receiving their first Social Security benefit at age 62 were more likely to report on inability to work than those first receiving them at older ages. Since

---

[4] For further information on the incomes of new retirees see the January, May, and July 1985 issues of the Social Security Bulletin.

1969, the proportion of newly retired men reporting no health related work limitations has increased by a third (from 45 percent in 1969 to 63 percent in 1982). However, the proportion reporting they are unable to work at all has remained constant at 18 percent over this period. 1969 data on the health of women retired workers is not available.[5]

TABLE 24.—1982 MONTHLY INCOME FROM MAJOR INCOME SOURCES FOR PERSONS WHO FIRST RECEIVED SOCIAL SECURITY RETIRED WORKER BENEFITS BETWEEN JUNE 1980 AND MAY 1981

	Percent receiving	Median monthly income (for recipients)
Married men and their wives:		
Social Security	98.3	$646
Earnings	43.7	617
Pensions	55.8	490
Asset income	83.0	180
Total income	100.0	1,511
Total number (thousands)	580.0	....
Unmarried men and women:		
Social Security	97.0	421
Earnings	27.0	392
Pensions	42.4	291
Asset income	69.1	99
Total income	100.0	775
Total number (thousands)	295.9	....

Source: Social Security Administration's New Beneficiary Survey, 1982.

TABLE 25.—PERCENT OF NEW RETIRED WORKER BENEFICIARIES REPORTING HEALTH RELATED WORK LIMITATIONS BY AGE AT FIRST BENEFIT RECEIPT, 1982

	Men			Women		
	Total	Age 62	Age 63 or older	Total	Age 62	Age 63 or older
Total percent	100	100	100	100	100	100
No work limitation	64	57	70	69	66	73
Some work limitation	18	21	16	13	14	12
Unable to work	18	22	14	18	20	15

Source: Social Security Administration's New Beneficiary Survey, 1982.

---

[5] For further information on the health status of new retirees see Packard, Social Security Bulletin, February 1985.

TABLE 26.—PERCENT OF NEWLY RETIRED MEN REPORTING HEALTH RELATED WORK LIMITATIONS BY AGE AT FIRST BENEFIT RECEIPT, 1969 AND 1982

	1969			1982		
	Total	Age 62	Age 63 to 64	Total	Age 62	Age 63 to 64
Total percent	100	100	100	100	100	100
No work limitation	45	39	53	63	57	69
Some work limitation	31	33	28	19	21	17
Unable to work	19	22	14	18	22	13
Nonresponse	5	7	4	0	0	0

Sources: Social Security Administration's Survey of Newly Entitled Beneficiaries, 1968–70 and New Beneficiary Survey, 1982.

Deficit reduction options

Table 27 presents a summary of the budgetary savings, as well as the distributional impact on beneficiaries by income, of 16 deficit reduction options affecting the elderly and the disabled. The first column presents Congressional Budget Office estimates of the 5 year savings (fiscal years 1986 through 1990) that would be achieved if these proposals were adopted. These estimates will be revised for the 5-year period beginning with fiscal year 1987, but are included here to provide a general perspective on the relative magnitude of the budget savings these proposals would generate.

It should be noted that the Balanced Budget and Emergency Deficit Control Act of 1985 separates the receipts and disbursements of the social security trust funds from the unified budget, and prohibits consideration of any measures pertaining to social security as part of the budget process. Though the OASDI trust funds are not included in the unified budget, the system's revenues and expenditures are included in the calculations of the "Maximum deficit amount" that triggers the automatic spending reduction process.

Columns 2 through 6 estimate the distribution of the effects a specific change would have on beneficiaries in different income classes. For instance, the table shows that 25 percent of the savings achieved from a 1-year freeze on social security and railroad retirement benefits would be drawn from beneficiaries whose total income is between 125 and 200 percent of the poverty line. By comparison, this same group would bear 7 percent of the burden imposed by eliminating the income thresholds ($25,000 for an individual, $32,000 for a couple) that determine income tax liability for social security and railroad retirement benefits.

The first broad category of proposals include seven alternative options for freezing or modifying for one year the COLAs provided in several non-means-tested Federal benefit programs. The first option would simply freeze social security and railroad retirement benefits; the second option would combine this action with a simultaneous increase in the SSI payment standards (by $20 for individuals, $30 for couples). The third and fourth options parallel the first and second, respectively, but include in the COLA freeze the

Civil Service, Military, Foreign Service, Public Health Service, and Coast Guard Retirement programs, and the Veterans Compensation program. Option five would provide a social security or railroad retirement COLA only on the portion of the benefit that is below the poverty limit (COLA cap); option six would replace the proportional COLA with a flat dollar amount equal to the COLA that would have been given to a beneficiary whose benefits equaled the poverty threshold (a flat COLA). The final COLA option would provide only beneficiaries receiving benefits that are below the poverty limit with a COLA (a Poverty COLA).

The second category of proposals would mainly affect the Medicare program. The first option would increase the Supplemental Medical Insurance (SMI) premium to a level where beneficiary contributions would finance 35 percent of program costs. The second option would increase the SMI premium to finance 30 percent of program costs, and increase the SMI deductible to $200, with future increases indexed to the CPI. The third option would introduce an income-related premium by imposing a 1 percent surtax on SMI enrollees, with new tax liability not to exceed the subsidy value of SMI benefits. The final option would impose a tax of 30 percent on the premiums that private insurance carriers receive for "Medigap" policies that supplement Medicare.

The third category of options contains five revenue proposals. The first option would eliminate the income thresholds that determine whether social security or railroad retirement benefits are taxable (the portion of benefits subject to tax would remain 50 percent). The second option would retain the thresholds, but tax up to 85 percent of social security and railroad retirement benefits. The third option would lower the thresholds to $20,000 for individuals and $25,000 for couples, and tax 85 percent of benefits. The fourth option would tax Medicare beneficiaries on 50 percent of the insurance value of Hospital Insurance and 75 percent of the value of SMI benefits. The last option would repeal the extra exemption for the aged.

TABLE 27.—SUMMARY OF AMOUNTS AND SOURCES OF SAVINGS DERIVED FROM SELECTED DEFICIT REDUCTION OPTIONS

Option [1]	Fiscal years 1986–90 budgetary savings [2] (in billions)	Distribution of effects on recipients in 1983 (in percent)				
		Poor [3]	100–125 percent of poverty line	126–200 percent of poverty line	201–300 percent of poverty line	Over 300 percent of poverty line
1-year benefit freeze options:						
Freeze social security and railroad retirement program benefits	$33.8	8	7	23	24	39
Combine social security and railroad retirement freeze with increase in SSI guarantee	29.9	(4)	5	24	27	44
Freeze all non-means-tested program benefits	43.3	6	6	19	22	47
Combine freeze on all non-means-tested programs with increase in SSI guarantee	39.4	(4)	4	20	24	52
Exempt social security and railroad retirement benefits below a specified threshold (COLA cap) [5]	16.5	1	2	12	20	66
Replace social security and railroad retirement COLA with flat COLA [5]	10.2	[6] −15	[6] −2	8	21	86
Exempt social security and railroad retirement beneficiaries below a specified threshold (poverty COLA) [5]	33.1	1	4	19	23	53
Medicare options:						
Increase SMI premium to 35 percent of costs [7]	17.1	11	8	23	23	36
Increase SMI premium to 30 percent of costs and increase deductible [7]	17.7	11	8	23	23	36
Introduce an income-related SMI premium	8.7	(4)	(4)	1	7	92
Impose a 30 percent tax on medigap policies	24.2	8	5	20	21	46
Taxation options:						
Eliminate thresholds for inclusion of benefits in adjusted gross income	36.1	(4)	(4)	7	28	65
Include up to 85 percent of benefits above threshold in AGI	19.3	0	0	0	(4)	100
Lower the thresholds and increase percent of benefit included in AGI	28.4	0	0	(4)	1	99
Include 50 percent of value of HI and 75 percent of SMI in AGI	20.1	(4)	(4)	4	18	77
Repeal extra exemption for the aged	13.3	0	(4)	3	16	81

[1] See text of the CBO report for definitions of options. The assumed effective date is Jan. 1, 1986, in most cases. The distribution of savings and the 5-year budgetary savings are not significantly impacted with a later date.

[2] Budgetary savings estimated for fiscal years 1986–90; distributional effects are for calendar year 1983.

[3] Poor families are those with income below Census poverty thresholds.

[4] Less than 0.5 percent.

[5] Benefit levels for all other non-means-tested programs would be frozen. See the CBO report for more detail on implementation.

[6] Total benefits received by the poor and near-poor in 1983 would increase by about $0.3 billion, and benefits received by the nonpoor would decrease by $1.6 billion, resulting in a net loss of $1.3 billion to be allocated across groups.

[7] The distribution of effects of these options are identical because it is assumed that per capita deductible expenditures do not vary by income group.

Note: Budgetary savings based on CBO baseline; distribution of savings based on tabulations of the March 1984 Current Population Survey, which reports incomes for calendar year 1983. See text of the CBO report for more detail and cautions in interpreting the findings.

Source: Congressional Budget Office, "An Analysis of Selected Deficit Reduction Options Affecting the Elderly and Disabled," staff working paper, March 1985.

Section 3. Disability Insurance Program

The disability insurance (DI) program provides monthly cash benefits for workers under age 65 and their dependents. Benefits for the disabled were provided to disabled workers age 50 or older by the 1956 Social Security Amendments; benefits for the dependents of disabled workers were provided by the 1958 Social Security Amendments. Benefits to disabled workers under age 50 were provided by the 1960 amendments.

GENERAL

Many provisions of the disability insurance (DI) program are identical to those of the old age and survivors insurance (OASI) program. For example, all workers who are covered by OASI are also covered by DI. Contributions are made under the same provision of the Internal Revenue Code and are made on the same wage base.

The DI portion of the OASDI tax is allocated to the Disability Insurance Trust Fund which is the source of payment for monthly benefits to disabled workers and their dependents and for administrative expenses of the program. In addition, the revenue derived from the taxation of disability benefits is also deposited in the trust fund.

The purpose of both OASI and DI benefits is to replace income lost when the wage-earner is no longer able to work. However, significant differences exist between the two programs, primarily because of the different nature of the event insured. The OASI program insures a worker, his dependents and survivors against loss of income due to the worker's retirement or death. The DI program insures against the loss of income due to the worker's physical or mental disability. In addition, the OASI program is administered solely by Federal employees in Federal installations, whereas the DI program is administered both through Federal social security offices and State disability determination services staffed by State employees.

BENEFITS

Summary

Monthly cash benefits are paid and computed generally on the same basis as in the OASI program. Benefit amounts are related to the past earnings of the insured worker.

In December 1985 there were 3.9 million DI beneficiaries in current-payment status. The total monthly benefits paid out were $1.46 billion. Table 1 summarizes various types of beneficiaries of the DI program currently receiving benefits, and average benefit amounts and the number of new awards during 1985.

TABLE 1.—DISABILITY CASH BENEFITS: NUMBER IN CURRENT PAYMENT STATUS AND AVERAGE BENEFIT AMOUNT (DECEMBER 1985) AND NUMBER OF BENEFITS AWARDED DURING THE YEAR AND AVERAGE BENEFIT AMOUNT, 1985

	Current payment		New awards	
	Number (in thousands)	Average payment	Number (in thousands)	Average payment
Disabled workers	2,656	$483.86	377	$473.67
Wives and husbands of workers	306	132.58	84	126.70
Children of disabled workers	945	141.79	253	130.00

Source: Office of Research, Statistics, and International Policy, Social Security Administration.

Description of major benefit types

Disabled-worker (disability insurance) benefit.—A monthly benefit payable to a disabled worker under age 65 insured for disability.

Spouses' benefit.—Monthly benefit payable to a spouse or divorced spouse of a disabled worker under one of the following conditions: (1) wife or husband is aged 62 or older or has 1 or more entitled children of the worker under age 16 in his or her care; or (2) divorced wife (husband) is aged 62 or older and her (his) marriage to worker has lasted 10 years (20 years for benefits paid or applications filed before January 1979) before divorce became final.

Child's benefit.—A monthly benefit payable to an unmarried child or eligible grandchild of a disabled worker.

Disabled child's benefit.—A monthly benefit payable to a disabled person aged 18 or over—a dependent son or daughter or eligible grandson or granddaughter of a retired, deceased, or disabled worker—whose disability began before age 22.

Definition of disability

Generally, disability is defined as an inability to engage in any substantial gainful activity by reason of a physical or mental impairment. The impairment must be medically determinable and expected to last for not less than 12 months or to result in death. A person (other than a disabled widow or widower) may be determined to be disabled only if due to this impairment he is unable to engage in any kind of substantial gainful work, considering his age, education, and work experience, which exists in the national economy even though such work does not exist in the immediate area in which he lives, or whether a specific job vacancy exists for him, or whether he would be hired if he applied for work.

There are special definition and eligibility requirements for persons who are blind.

A widow (or widower) can be determined to be disabled only if a physical or mental impairment exists of such a level of severity that makes it impossible to perform any gainful work (rather than substantial gainful work).

Waiting period

An initial 5-month waiting period is required before disability insurance benefits will be paid. Benefits are payable for the 6th month. However, benefits may be paid for the 1st full month of disability to a worker who becomes disabled within 60 months (for a disabled widow or widower the period is 84 months) after termination of disability insurance benefits after an earlier period of disability.

Insured status

Workers are *insured for disability* if they are fully insured and, except for persons who are blind or disabled before age 31, have a total of at least 20 quarters of coverage during the 40-quarter period ending with the quarter in which the worker became disabled. Workers who are disabled before age 31 must have total quarters of coverage equal to half the calendar quarters which have elapsed since the worker reached age 21, ending in the quarter in which the worker became disabled. However, a minimum of 6 quarters is required.

BENEFIT COMPUTATION

Disability benefits are computed in the same manner as old age and survivors benefits (the worker is presumed to be age 62 in the month he becomes disabled) except that the number of years of earnings which is excluded when determining the benefit amount is less than 5 for workers under age 47. The number of drop-out years allowed increases with the age of the insured worker at disablement. The amount of the monthly benefit is based on the insured worker's primary insurance amount (PIA). The presumption of age 62 does not result in an actuarial reduction.

The following table lists major disability benefits with the percentage of the insured worker's PIA.

TYPE OF MONTHLY BENEFIT

	Percent of PIA
Disabled worker (any age)	100
Dependents of disabled worker: [1] Wife or husband (age 62), mother, father, children and grandchildren	50
Survivors: [1] Disabled (age 50–59), widows or widowers	71.5

[1] Subject to maximum family benefit limitation.

Substantial gainful activity

The Secretary of HHS[1] has specific regulatory authority to prescribe the criteria for determining when earnings derived from employment demonstrate an individual's ability to engage in substantial gainful activity (SGA).

---

[1] Throughout the remainder of this section when Secretary is used, it is the Secretary of Health and Human Services.

The Secretary has published regulations specifying the monetary amounts which indicate substantial gainful activity. At the present time the SGA earnings level is $300 a month (net of impairment-related work expenses).

Trial work period

A 24-month "trial work period" is provided for disabled beneficiaries who attempt to work, during which their benefits will not be terminated because of work. During the second 12 months of this period, benefits are suspended for any month during which the individual is engaged in substantial gainful activity (SGA), but his entitlement to benefits is not terminated. Medicare benefits may be continued for 24 months after the expiration of the trial work period.

If an individual medically recovers to the extent that he no longer meets the definition of disability, benefits are terminated regardless of the "trial work" provision. Only one trial work period is permitted for each period of disability. Beneficiaries who qualified for benefits without a waiting period are not entitled to a trial work period. The Secretary of HHS has provided by regulation that earnings of $75 a month will constitute a month of "trial work."

Maximum family benefit

The maximum monthly amount of family benefits which is payable on a disabled worker's earnings record for workers who first become entitled after June 1980, is the smaller of 85 percent of the worker's average indexed monthly earnings or 150 percent of the worker's primary insurance amount. However, in no case can the benefit be reduced below 100 percent of the worker's primary insurance amount.

Offset for other public disability benefits

When a disabled worker under age 65 qualifies on the basis of total or partial disability (whether or not permanent) for benefits which are provided by Federal, State and local governments and worker's compensation, the social security benefits payable to him and his family are reduced by the amount, if any, that the total monthly benefits payable under the two or more programs exceed 80 percent of his average current earnings before he became disabled. Needs-tested benefits, Veterans' Administration disability benefits, and benefits based on public employment covered by social security are not subject to the provision. A worker's average current earnings for this purpose are the larger of (a) the average monthly earnings used for computing his social security benefits, or (b) his average monthly earnings in employment or self-employment covered by social security during the 5 consecutive years of highest covered earnings after 1950, or (c) the average monthly earnings during the calendar year of highest earnings during a period consisting of the year in which disability began and the preceding 5 years without regard to the limitations which specify a maximum amount of earnings creditable for social security benefits. The combined payments after the reduction are never less than the total amount of the DI benefits payable before the reduction. In addition, the social security benefit is increased by the full

BEST COPY AVAILABLE

amount of the cost-of-living increase as applied to the unreduced benefit. Every 3 years the original amount of benefits subject to reduction is redetermined to reflect changes in average wage levels. If increases in the average national wages would result in a higher benefit than that payable based on the original computation, the benefit is increased effective January of the redetermination year.

The offset begins in the month during which concurrent entitlement begins under a Federal or State law.

The offset of the social security disability benefit will not be made if the State worker's compensation law provides for an offset against social security disability benefits. However, this waiver of the offset would only apply where the State program began offsetting on or before February 18, 1981.

DETERMINATION OF DISABILITY

State agency determinations of disability

Disability determinations are made by State agencies who agree to make such determinations and substantially comply with the regulations of the Secretary. The Secretary is required to issue regulations specifying, in such detail as he deems appropriate, performance standards and administrative requirements and procedures to be followed in performing the disability determination function "in order to assure effective and uniform administration of the disability insurance program through the United States." Certain operational areas are cited as "examples" of what the regulations may specify. These include such items as the nature of the administrative structure, the physical location of and relationship among agency staff units, performance criteria and fiscal control procedures.

The law also provides that if the Secretary finds that a State agency is substantially failing to make disability determinations consistent with his regulations, the Secretary shall, not earlier than 180 days following his findings, terminate State administration and make the determinations himself. The law also allows for termination by the State. The State would be required to continue to make disability determinations for not less than 180 days after notifying the Secretary of its intent to terminate. Thereafter, the Secretary would be required to make the determinations.

Determining disability: Application of law and regulations

The adjudication of claims is accomplished on a sequential basis. Whether the individual is currently employed and the amount of earnings are the first factors considered. If the individual is earning the amount that determines ability to engage in "substantial gainful activity" (SGA, now $300 a month) he is determined not disabled. If he is making less than this amount or not working at all, the severity and duration of the impairment are explored. If the severity is determined to be "not severe" the individual is denied right at that point. However, if the impairment is "severe," a determination is made whether the impairment "meets" or "equals" the level of severity spelled out in the regulations[2] and whether it will last for 12 months. If it neither "meets" nor "equals" the specified standard (which will result in an allowance) but meets the 12-month duration rule, a determination is then made whether the claimant is able to carry out his former occupation. If he can he is denied benefits, but if he cannot, the non-medical factors come into play.

At this stage, because of a judicial opinion and subsequent administrative and legislative ratification, the burden of proof switches to the Government to show that the individual can, considering his impairment, age, education, and work experience, engage in some other kind of substantial gainful activity which exists in a national economy. Such work, however, does not have to exist in the immediate area in which he lives and a specific job vacancy does not have to be available to him. Work in the national economy is defined in the law as work which exists in significant numbers either in the region where such individual lives or in several regions of the country.

In the face of a growing number of nonmedical allowances and a declining number of cases where the medical listings were met, the Social Security Administration in 1976 developed a vocational "grid" designed to reduce the subjectivity and lack of uniformity in applying the vocational factor. The grid regulations were designed to formularize certain worker characteristics such as age, education, and past work experience, in relation to the individual's residual functional capacity (RFC) to perform work-related physical and mental activities. If the claimant has a particular level of residual work capability—characterized by the terms Sedentary, Light, Medium, Heavy and Very Heavy—an automatic finding of "disabled" or "not disabled" is required when applied to various combinations of age, education, and work experience.

The regulations were finally promulgated in February 1979 after some lengthy administrative hearings and consideration. During the period 1975–1983, there was a decline at the State agency level in the number of non-medical allowances and a dramatic increase in the percentage of allowed cases which "met" the medical listings. Those percentages are presented in table 2 and show this trend has slightly reversed itself in 1984 and 1985. Moreover, there was an equally dramatic increase during the period from 1975 through 1983 in the number of denials on the basis of "impairment not severe" which under the sequential method of determining disability would exclude the consideration of the nonmedical factors. This trend also seems to have dramatically slowed in 1984 and 1985. Table 3 gives a percentage distribution of the basis for denials at the initial determination of disability at the State agency level for fiscal years 1975 to 1985.

---

[2] The Listing of Impairments contains over 100 examples of medical conditions that would ordinarily prevent an individual from engaging in any gainful activity. Each listing describes a degree of severity such that an individual who is not working and has such an impairment is considered unable to work by reason of the medical impairment. The listing describes specific medically acceptable clinical and laboratory findings and signs which establish the severity of the impairments. An impairment or combination of impairments is said to "equal the listings" if the medical findings for the impairment are at least equivalent in severity and duration to the listed findings of a listed impairment.

TABLE 2.—BASIS FOR TITLE II ALLOWANCES—NATIONAL FIGURES: INITIAL WORKER DETERMINATION, FISCAL YEARS 1975–85

[In percent]

Fiscal year	Meets listing	Equals listing	Medical and vocational considerations
1975	29.4	43.9	26.7
1976	29.0	45.1	25.9
1977	34.2	41.9	23.9
1978	45.6	31.9	22.5
1979	55.1	22.7	22.1
1980	57.9	16.2	25.9
1981	63.9	12.3	23.8
1982	72.7	8.6	18.7
1983	74.0	8.3	17.7
1984	66.7	8.7	24.6
1985	62.7	9.2	28.1

Source: Office of Disability, Social Security Administration.

TABLE 3.—BASIS FOR TITLE II DISALLOWANCES AND DENIALS: INITIAL WORK DETERMINATION, FISCAL YEARS 1975–85

[In percent: fiscal years]

	Duration	Slight impairment	Able to perform usual work	Able to perform other work	Engaging in SGA	Failure to cooperate	Failure to appear	Other
1975	19.6	8.4	44.3	18.2	1.0	5.1	1.8	1.6
1976	19.9	10.8	41.9	20.1	.4	4.8	1.8	.3
1977	21.2	24.8	30.0	15.7	.5	4.9	1.8	1.1
1978	21.1	31.8	25.0	14.6	.5	4.1	1.9	1.0
1979	20.0	41.6	21.5	12.5	.4	.9	2.3	.8
1980	20.6	39.0	23.7	12.7	...	1.9	1.3	.7
1981	17.5	43.2	18.7	11.3	2.0	...	2.6	4.8
1982	16.4	38.9	22.6	14.1	1.1	...	2.8	3.6
1983	16.9	39.4	22.0	14.3	1.0	...	3.0	3.4
1984	14.8	34.3	23.8	16.7	1.0	2.0	2.3	5.1
1985	15.4	23.3	35.4	20.3	1.1	...	2.2	2.3

Source: Office of Disability, Social Security Administration.

A widow or widower may qualify for benefits on the deceased spouse's work record at age 50 and over if he or she has "physical or mental impairments" at "a level of severity which under regulations prescribed by the Secretary is deemed to be sufficient to preclude an individual from engaging in any gainful activity." The regulations of the Secretary state that to qualify for disabled widows' benefits a person must have impairments which "meet the listings" or "are medically equivalent to those for any impairment shown there." Thus, vocational factors are not taken into account in determining the disability of a widow or widower.

Federal review of State determination

The Secretary may, on his own motion, review any determination by a State agency.

The law requires that the following minimum number of allowances (or continuances) of disability shall be reviewed by the Secretary:

	Percent [1]
Decisions made in fiscal year:	
1981	15
1982	35
1983 and thereafter	65

[1] Minimum percent reviewed.

Periodic review of individuals receiving disability benefits

The 1980 Disability Amendments required that the Social Security Administration reexamine every individual on the rolls who is determined to be nonpermanently disabled for benefit eligibility at least once every 3 years. Where there is a finding of permanency, the Secretary may reexamine at such times as is determined to be appropriate. These reviews are in addition to the administrative procedures existing prior to the 1980 amendments which determined continued eligibility for disability benefits. Legislation enacted in late 1982 provided authority for the Secretary to slow down the rate of continuing eligibility reviews mandated by the 1980 amendments.

Medical improvement standard

The 1984 Disability Benefits Reform Act amended the law to require that in continuing eligibility review cases, benefits may be terminated only if the Secretary finds that there has been medical improvement in the person's condition and that the person is now able to engage in substantial gainful activity. There are several statutory exceptions to this standard, which is described in greater detail in the "Recent Legislation" section of this chapter.

Medical evidence

An individual is not considered under a disability unless he furnishes such medical and other evidence as the Secretary may require.

Under the law, the Secretary will generally reimburse physicians or hospitals for supplying medical evidence in support of claims for social security disability insurance benefits. The Secretary also pays for medical examinations if this is needed to adjudicate the claim.

Attorney's fees and representation

At the administrative level the Secretary of HHS is authorized to fix a reasonable fee for the services provided before the Social Security Administration for a Social Security applicant by an attorney and to pay such attorney's fee out of the applicant's past-due benefits. The amount that can be paid out of past-due benefits is limited to the smaller of (a) 25 percent of the past-due benefits; (b) the fee fixed by the Secretary; or (c) an amount agreed to by the applicant and the attorney. The Secretary certifies for payment to the attorney the fee so fixed.

A court which renders a decision favorable to a claimant for social security benefits is permitted to set a reasonable fee for the attorney who represented the claimant before the court. The fee cannot exceed 25 percent of the past-due benefits which result from the court's decision. The Secretary may certify for payments to the attorney, out of the total of the past-due benefits, the amount of the fee set by the court.

VOCATIONAL REHABILITATION

The Social Security Act requires that disabled persons applying for a determination of disability be promptly referred to State vocational rehabilitation agencies for necessary rehabilitation services. The act provides for withholding of benefits for refusal, without good cause, to accept rehabilitation services available under a State plan approved under the Vocational Rehabilitation Act in such amounts as the Secretary shall determine.

Public Law 97-35 eliminated reimbursement from the trust funds to the State vocational rehabilitation agencies for rehabilitation services except in cases where the services have resulted in the beneficiary's performance of substantial gainful activity (SGA) for a continuous period of at least 9 months. Such a 9-month period could begin while the individual is under a vocational rehabilitation program and may also coincide with the trial work period or the individual's waiting period for benefits. The services must be performed under a State plan for vocational rehabilitation services under title I of the Rehabilitation Act. In the case of any State which is unwilling to participate or which does not have a plan which meets the requirements of the Vocational Rehabilitation Act, the Commissioner of Social Security may provide such services by agreement or contract with other public or private agencies, organizations, institutions or individuals. The determination that the VR services contributed to the successful return of the individual to SGA and the determination of the amount of costs to be reimbursed shall be made by the Commissioner of Social Security in accordance with criteria formulated by him. Payments under this provision shall be made in advance or by way of reimbursement, with necessary adjustments for overpayments or underpayments.

DISABILITY CLAIMS AND APPEALS STRUCTURE

The social security appeals and case review process is a complex multi-layered structure which is inextricably linked with the disability determination process. Since about 97 percent of the hearing requests involve disability claims (both social security and SSI), the process described will be for that type of claim. The application for disability benefits is made at the Federal social security district office where the claimant is interviewed and the sources of medical evidence are recorded. After determining whether the applicant meets the insured status requirements, the case is then sent to the State agency which, operating as an agent of the Social Security Administration, makes the initial determination of disability. If a claimant or terminated beneficiary is dissatisfied with an initial denial or termination of disability benefits by the State agency, he can request a reconsideration within 60 days of notice of denial. The reconsideration is also carried out by the State agency but by personnel other than those who made the initial determination. If upon reconsideration the claimant is again denied benefits he will be given a hearing before an administrative law judge (ALJ), providing he files a request within 60 days of notice of denial. If the claim is denied by the ALJ, the claimant has 60 days to request review by the Appeals Council. The Appeals Council may also, on its own motion, review a decision within 90 days of the ALJ's decision. The 1980 Disability Amendments required the Secretary to review a percentage of ALJ hearing decisions, and this review is being conducted by the Appeals Council.

The Appeals Council may review, affirm, modify or reverse the decision of the ALJ, or it may remand it to the ALJ for further development. The claimant is notified in writing of the final action of the Appeals Council, and is informed of his right to obtain further review by commencing a civil action within 60 days in a United States district court.

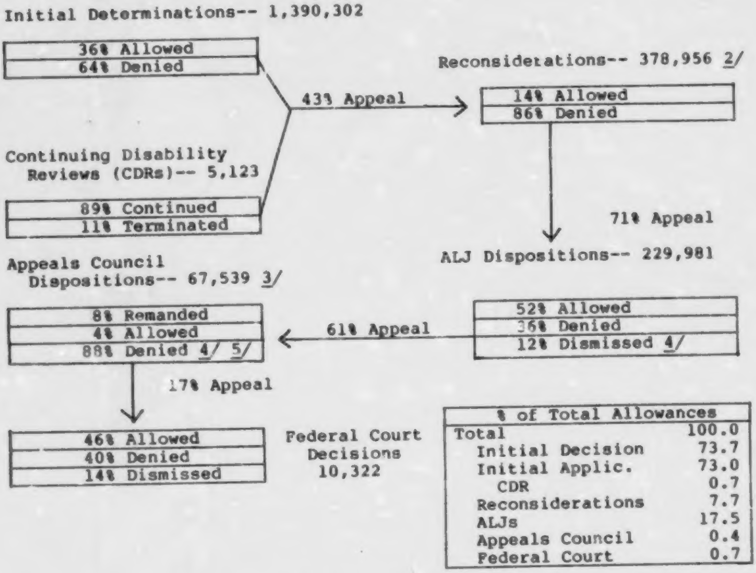
Under current law, as amended by the 1984 Disability Benefits Reform Act, benefits of terminated DI beneficiaries are continued through the appeals process. If the termination decision is upheld, the beneficiary must repay these benefits.

The magnitude and complexity of the disability determination and appeals process is shown in table 4. Of the 1,390,302 initial disability determination decisions by State agencies in fiscal year 1985, some 36 percent were allowed.

Actually the process is more complex than an initial glance at table 4 would indicate. For example, in fiscal year 1982, 71,450 initial allowances were selected for a Federal preeffectuation review after which 6,502 cases were returned to the State agencies. Ultimately 4,155 of these initial decisions were reversed. Thus, the Federal review process examined approximately 30 percent of initial allowances. A similar process also takes place for the continuing disability allowances and the reconsiderations which result in an allowance. Out of the total 1,567,247 initial and continuing disability determinations in 1984, 61 percent were initially denied. Fewer than half of these appealed their denials to the reconsideration level, although 96 percent of those denied at the reconsideration level appealed to the administrative law judge hearing level. As a result, after all levels of appeal had been exhausted, only about 28.3 percent of those denied initially (either on initial application or continuing eligibility review) had benefits granted to them through the appeals process.

TABLE 4.—DISABILITY DETERMINATIONS AND APPEALS, FISCAL YEAR 1985

Title II, Title XVI and Concurrent Title II and XVI Decisions
for Disability Claims by Workers, Widows, Widowers and
Dependent Adult Children 1/



% of Total Allowances	
Total	100.0
Initial Decision	73.7
Initial Applic.	73.0
CDR	0.7
Reconsiderations	7.7
ALJs	17.5
Appeals Council	0.4
Federal Court	0.7

1/ The data relate to workloads processed at the various levels in FY 85, but include some cases where the initial level decision was made in a prior period. The data include determinations on initial applications as well as continuing disability reviews (both periodic reviews and medical diary cases).

2/ Title II only. Title XVI and concurrent Title II/XVI cessation cases go directly to an ALJ hearing.

3/ Includes ALJ decisions cases not appealed further by the claimant but reviewed by the Appeals Council on its "own-motion" authority.

4/ Includes periodic review cases in which benefits were reinstated under Secretary Heckler's suspension of the continuing disability review process in April 1984.

5/ Includes dismissals, denials of request for review, and affirmations of denial.

Table 5 presents information for fiscal years 1979 through 1985 of the number of cases which are reviewed and reversed at the administrative law judge level. Approximately 54.8 percent of initial denials were reversed in 1985.

TABLE 5.—ADMINISTRATIVE LAW JUDGE REVERSAL RATES—DISABILITY INSURANCE [1] INITIAL DENIALS AND TERMINATIONS,[2] FISCAL YEARS 1979–85

	Dismissed	Affirmed	Reversed	Total	Percent reversed
Fiscal year 1979:					
Initial denials	6,332	31,485	48,934	86,751	56.4
Terminations	1,401	4,078	8,052	13,531	59.5
Fiscal year 1980:					
Initial denials	7,093	31,703	56,733	95,529	59.4
Terminations	1,431	4,197	9,909	15,537	63.8
Fiscal year 1981:					
Initial denials	15,141	59,930	98,129	172,200	56.7
Terminations	2,623	6,945	16,685	26,253	63.6
Fiscal year 1982:					
Initial denials	15,403	67,481	91,865	174,749	52.6
Terminations	4,670	17,502	37,306	59,478	62.7
Fiscal year 1983:					
Initial denials	14,334	65,626	79,427	159,387	49.8
Terminations	9,247	37,284	73,821	120,352	61.3
Fiscal year 1984:					
Initial denials	15,075	63,381	88,301	166,757	53.0
Terminations	25,681	22,590	56,327	104,598	53.9
Fiscal year 1985:					
Initial denials	14,806	61,161	92,118	168,085	54.8
Terminations	4,176	2,415	3,126	9,717	32.2

[1] Includes title II and concurrent title II/title XVI disability cases.

[2] Includes all termination cases regardless of the basis for termination.

Source: Office of Hearings and Appeals, Social Security Administration.

Table 6 presents information on the number of continuing disability investigations which have taken place from fiscal year 1977 to 1985. From 1977 to 1981 the number of cases reviewed ranged between 2.4 percent to 5.0 percent of the total caseload. In fiscal year 1983, the percentage of cases reviewed climbed to 13.8 percent. The percent of cases which were terminated has held fairly constant at around 42 to 45 percent over this time period. This implies that the number of cases terminated has increased substantially. In fiscal year 1983, benefits were terminated for 182,074 disabled workers as compared with 80,956 2 years earlier. These beneficiaries have the ability to appeal and so these numbers should not be construed as the ultimate outcome of the continuing disability investigation process. As noted, the sharp decline in the number of reviews in fiscal years 1984 and 1985 reflects the Secretary's moratorium on reviews pending enactment of the legislation in 1984, and delays in implementing that legislation in 1985. The very low percentage of cessations in that period may also reflect uncertainty about the nature of the new standards to be provided in the legislation and regulations.

TABLE 6.—CONTINUING DISABILITY INVESTIGATIONS (CDI) INITIAL DECISIONS: TITLE II DISABLED WORKERS, DISABLED WIDOWS AND WIDOWERS, AND DISABLED CHILDREN CESSATIONS AND CONTINUATIONS, FISCAL YEARS 1977–85

	Cessations		Continuations		Total cases		
	Number	Percent	Number	Percent	Cessations and continuations	Total disabled persons [1]	Percent reviewed
1977	41,475	38.7	65,745	61.3	107,220	3,322,230	3.2
1978	38,847	46.4	44,804	53.6	83,651	3,418,931	2.4
1979	45,216	48.1	48,868	51.9	94,084	3,435,038	2.7
1980	44,273	46.8	50,227	53.2	94,550	3,433,695	2.8
1981	80,956	47.9	87,966	52.1	168,922	3,387,574	5.0
1982	179,857	44.8	221,325	55.2	401,182	3,224,136	12.4
1983	182,074	41.7	254,424	58.3	436,498	3,172,392	13.8
1984 [2]	31,927	24.6	97,752	75.4	129,679	3,200,096	4.1
1985 [2]	2,785	85.4	475	14.6	3,260	3,332,870	.1

[1] In force at end of fiscal year.

[2] The decline in the number of reviews in 1984 and 1985 was due to the national moratorium on reviews pending enactment and implementation of the new legislation with revised criteria for CDI's (enacted in 1984, regulations promulgated late 1985).

Source: Office of Disability Programs, Social Security Administration.

RECENT EXPERIENCE IN THE DISABILITY PROGRAM

In the past several years, there has been a significant decline in the number of beneficiaries (from 4.868 million in 1978 to 3.813 million in December 1983). This is a decline of 21.7 percent. The number of awards has declined from 592,049 in 1975 to approximately 298,531 in 1982. This number increased slightly in 1983 to 311,491 awards, and to 388,290 in 1985. The incidence of disability (number of awards per 1,000 insured workers) fell from an all-time high of 7.1 in 1975 to 2.9 in 1982, the lowest incidence rate in the history of the program, and now stands at 3.5 for 1985. (See table 7.)

Table 8 shows the number of disability insurance beneficiaries for selected years.

TABLE 7.—DISABLED WORKERS' APPLICATIONS, AWARDS AND RATIO OF AWARDS TO APPLICATIONS AND AWARDS PER 1,000 INSURED WORKERS FOR 1960, 1965, 1970 TO 1985

	Number of applications (in thousands)	Total awards	Total awards divided by total applications (percent)	Awards per 1,000 insured workers
1960	418.6	207,805	50	4.5
1965	532.9	253,499	48	4.7
1970	868.2	350,384	40	4.8
1971	924.4	415,897	45	5.6
1972	947.8	455,438	48	6.0
1973	1,066.9	491,616	46	6.3
1974	1,330.2	535,977	40	6.7
1975	1,285.3	592,049	46	7.1
1976	1,232.2	551,460	45	6.5
1977	1,235.2	568,874	46	6.5
1978	1,184.7	464,415	39	5.2
1979	1,187.8	416,713	35	4.4
1980	1,262.3	396,559	31	4.0
1981	1,161.3	345,254	30	3.4
1982	1,020.0	298,531	29	2.9
1983	1,017.7	311,491	31	3.0
1984	1,035.7	357,141	34	3.0
1985 [1]	1,073.0	388,290	36	3.5

[1] Preliminary, as of December 1985.

Source: Office of the Actuary, Social Security Administration.

TABLE 8.—NUMBER OF DISABILITY INSURANCE BENEFICIARIES FOR SELECTED YEARS: 1960–85

[Current payment status, December]

	Disabled workers	Spouse	Child	Total
Year:				
1960	455,371	76,599	155,481	687,451
1965	988,074	193,362	557,615	1,739,051
1970	1,492,948	283,447	888,600	2,664,995
1975	2,488,774	452,922	1,410,504	4,352,200
1980	2,861,253	462,204	1,358,715	4,682,172
1981	2,776,519	428,212	1,251,543	4,456,274
1982	2,603,713	365,883	1,003,869	3,973,465
1983	2,568,966	308,060	935,904	3,812,930
1984	2,596,535	303,984	921,285	3,821,804
1985	2,656,500	305,528	945,141	3,907,169

Source: Office of Research, Statistics, and International Policy, Social Security Administration.

TABLE 9.—PERCENT DISTRIBUTION BY AGE AND SEX OF DISABLED WORKER BENEFICIARIES ALLOWED IN SELECTED YEARS 1970–83, COMPARED WITH ADULT U.S. POPULATION

Characteristics	Year allowed benefits							Adult U.S. population [1]
	1970	1973	1975	1978	1979	1982	1983	
Total percent	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Age:								
Under 35	9.0	8.0	11.0	13.0	13.6	14.4	16.6	49.0
35 to 44	11.0	9.0	10.0	12.1	11.5	12.3	12.8	19.0
45 to 54	26.0	26.0	26.0	28.3	27.2	26.5	24.2	16.0
55 to 59	24.0	26.0	23.0	25.5	27.0	27.2	22.7	8.0
60 and over	30.0	31.0	30.0	21.2	20.6	19.6	23.7	8.0
Median age (years)	56.0	56.3	55.6	53.1	53.4	53.1	52.9	35.4
Sex:								
Male	74	71	68	70	69	70	69	49
Female	26	29	32	30	31	30	31	51

[1] Derived from 1980 Census; based on population aged 18–64.

Source: Office of Disability, Social Security Administration.

BEST COPY AVAILABLE

TABLE 10.—PERCENT DISTRIBUTION BY EDUCATION AND OCCUPATION OF DISABLED WORKER BENEFICIARIES ALLOWED IN SELECTED YEARS 1970–83, COMPARED WITH ADULT U.S. POPULATION

Education and occupation	Year allowed benefits							Adult U.S. population [1]
	1970	1973	1975	1978	1979	1982	1983	
Total percent	100	100	100	100	100	100	100	100
Education (years of school completed):								
No schooling	2	1	1	1	1	1	[2] 1	2
Elementary school (1 to 8)	44	40	37	31	29	26	23	17
High school	46	50	52	54	55	56	55	51
9 to 11	23	23	24	NA	23	22	21	14
12	23	26	28	NA	32	34	34	37
Some college	9	10	10	12	12	14	14	32
Unknown	0	0	0	2	3	3	7	2
Occupation:								
Professional, technical and managerial	12	13	18	11	14	14	14	24
Clerical and sales	15	15	14	12	15	15	14	25
Service	18	17	17	12	15	14	15	12
Farming	6	5	4	3	4	3	3	3
Transportation, packaging and handling, mineral extraction	14	13	12	10	12	12	11	18
Machine trades	11	11	10	8	10	10	8	18
Bench work	6	7	7	5	6	5	5	
Processing	3	4	3	3	3	4	3	
Structural work	15	15	15	32	14	15	13	
Unknown	0	0	0	4	7	8	14	

---

[1] Derived from 1980 Census. Figures for education based on persons aged 25 and over. Figures for occupation based on employed population aged 18–64.

[2] Special schools for handicapped (0.6 percent) and no schooling (0.5 percent).

Source: Office of Disability, Social Security Administration.

NA—Not available.

TABLE 11.—PERCENT DISTRIBUTION BY DISABLING CONDITION AND MOBILITY OF DISABLED WORKER BENEFICIARIES ALLOWED IN SELECTED YEARS 1970–83

Disabling condition and mobility	Year allowed benefits						
	1970	1973	1975	1978	1979	1982	1983
Total percent	100	100	100	100	100	100	100
Disabling condition:							
Infective and parasitic diseases	3	2	1	1	1	1	2
Neoplasms	10	10	10	12	14	17	17
Allergic, endocrine system, metabolic and nutritional diseases	4	4	3	4	3	4	5
Mental, psychoneurotic and personality disorders	11	10	11	12	11	11	16
Diseases of the nervous system and sense organs	6	6	7	6	8	9	8
Circulatory system	31	32	32	29	28	25	22
Respiratory system	7	7	7	6	6	7	6
Digestive system	3	3	3	3	2	2	2
Skeletal musculo	15	17	17	19	17	16	13
Accidents, poisonings and violence	8	6	6	6	6	6	5
Other	2	3	3	3	3	2	4
Mobility:							
Institutionalized	6	3	2	2	2	1	2
Hospitalized	6	4	3	2	2	3	3
Housebound	6	3	2	1	2	2	2
Ambulatory outside house:							
With help	16	16	13	10	10	10	10
By self	66	73	77	82	82	81	76
Other/unknown	0	0	0	2	2	3	7

Source: Office of Disability, Social Security Administration.

RECENT LEGISLATIVE CHANGES

97TH CONGRESS

Continued payment of disability benefits during appeal

Under current law, a social security disability insurance (DI) beneficiary who is found to be no longer disabled under the provisions of the Social Security Act continued to receive benefits for 2 months after the month in which his eligibility was determined to have ceased. (As an administrative practice, individuals are generally found to be "no longer disabled" no earlier than the month in which the individual was notified of the termination decision.)

The individual may request a reconsideration of the decision, and if the termination is upheld, he may appeal the decision to an administrative law judge (ALJ). The individual is not eligible for benefits during the appeal process. However, if the initial termination decision is reversed, benefits are paid retroactively.

For beneficiaries who were found no longer disabled prior to December 7, 1983, upon request of the beneficiary, DI benefits and medicare coverage would continue to be paid through the month preceding the month of the decision pursuant to a hearing before an administrative law judge. These additional DI benefits would be subject to recovery as overpayments, subject to the same waiver provisions now in prior law, if the initial termination decision is upheld. This continuation of benefits was effective for benefit payments through May 1984.

Evidentiary hearings in reconsiderations of disability benefit terminations

Public Law 97-455 requires the Secretary to provide, beginning no later than January 1, 1984, opportunity for a face-to-face, evidentiary hearing during reconsideration of decisions to terminate benefits for disability beneficiaries. This requirement does not supplant or affect in any way the requirement of existing law for a hearing by an administrative law judge. The provision applies only to reconsiderations of determinations that the beneficiary is not disabled because the physical or mental impairment on which his eligibility is based is found to have ceased, not to have existed or to no longer be disabling.

Omnibus Budget Reconciliation Act of 1981 (Public Law 97-35)

Enacted as a part of this act was a provision which eliminated reimbursement from the trust funds to the State vocational rehabilitation agencies for rehabilitation services except in cases where the services have resulted in the beneficiary's performance of substantial gainful activity (SGA) for a continuous period of 9 months.

Also enacted was a provision to reduce social security disability benefits in recognition of related payments from other public programs (megacap); a provision to extend the offset to disabled worker beneficiaries aged 62 through 64 and their families, and a provision to change the month in which payments are first offset.

98TH CONGRESS: THE DISABILITY BENEFITS REFORM ACT OF 1984

Public Law 98-460, the Disability Benefits Reform Act of 1984, made several substantial changes in the standards for review of disability beneficiaries, and in other provisions of the program as well. The following is a summary of the new law.

1. Medical improvement standard

Public Law 98-460 establishes a medical improvement standard under which the Secretary may terminate disability benefits on the basis that the person is no longer disabled only if:

(1) There is substantial evidence demonstrating that (a) there has been any medical improvement in the individual's impairment or combination of impairments (other than medical improvement which is not related to the person's ability to work), (b) the individual is now able to engage in substantial gainful activity (SGA); or

(2) There is substantial evidence consisting of new medical evidence and a new assessment of RFC which demonstrates that although there is no medical improvement, (a) the person has benefited from advances in medical or vocational therapy

or technology related to ability to work, and (b) that he or she is now able to perform SGA; or

(3) There is substantial evidence that although there is no medical improvement (a) the person has benefited from vocational therapy and (b) the beneficiary can now perform SGA; or

(4) There is substantial evidence that, based on a new or improved diagnostic techniques or evaluations, the person's impairment or combination of impairments is not as disabling as it was considered to be at the time of the prior determination, and that therefore the individual is able to perform SGA; or

(5) There is substantial evidence either in the file at the original determination or newly obtained showing that the prior determination was in error; or

(6) There is substantial evidence that the original decision was fraudently obtained; or

(7) If the individual is engaging in SGA (except where he or she is eligible under Section 1619), fails without good cause to cooperate in the review or follow prescribed treatment or cannot be located.

In making the determination, the Secretary shall consider the evidence in the file as well as any additional information concerning the claimant's current or prior condition secured by the Secretary or provided by the claimant.

Determinations under this provision must be made on the basis of the weight of the evidence, and on a neutral basis with regard to the individual's condition, without any inference as to the presence or absence of disability based on the previous finding of disability.

Regulations must be issued within 6 months.

Effective date: Applies only with respect to the following categories:

(1) Determinations by the Secretary made after date of enactment;

(2) Cases pending at any level of the administrative process on the date of enactment;

(3) Cases of individual litigants pending in Federal court on the date of the conference report is filed;

(4) Cases of named plaintiffs in class action suits pending on that date;

(5) Cases of unnamed plaintiffs in class action suits certified prior to that date; and

(6) Cases where a request for judicial review is made on a decision of the Secretary made during the 60 days preceding enactment;

Cases in categories (3), (4), (5), and (6) will be remanded to the Secretary for review under this standard. Individuals in (5) will be sent a notice via certified mail informing them that they have 120 days after the date of receipt of the notice to request a review under the medical improvement standard.

No class action may be certified after the date the conference report is filed which raises the issue of medical improvement with respect to an individual whose benefits were terminated prior to that date.

Persons whose cases are remanded to the Secretary will receive benefits pending the Secretary's decision and appeal of that decision if they so elect. If found eligible, any person whose case was remanded under this provision will receive benefits retroactive to the date they were last found ineligible.

2. Evaluation of pain

The Secretary of HHS is required, in conjunction with the National Academy of Sciences, to conduct a study concerning the questions of using subjective evidence of pain in determining whether a person is under a disability, and the state of the art of preventing, reducing or coping with pain. This study is due to the House Committee on Ways and Means and the Senate Committee on Finance by December 31, 1985.

The following statutory standard is established, to be in effect until December 31, 1986:

> An individual's statement as to pain or other symptoms shall not alone be conclusive evidence of disability as defined in this section; there must be medical signs and findings, established by medically acceptable clinical or laboratory diagnostic techniques which show the existence of a medical impairment that results from anatomical, physiological or psychological abnormalities which could reasonably be expected to produce the pain or other symptoms alleged and which, when considered with all evidence required to be furnished under this paragraph (including statements of the individual or his physician as to the intensity and persistence of such pain or other symptoms which may reasonably be accepted as consistent with the medical signs and findings), would lead to a conclusion that the individual is under a disability. Objective medical evidence of pain or other symptoms established by medically acceptable clinical or laboratory techniques (for example, deteriorating nerve or muscle tissue), must be considered in reaching a conclusion as to whether the individual is under a disability.

3. Multiple impairments

In determining whether a person's impairment or impairments are of a sufficient medical severity to be the basis of a finding of eligibility for benefits, the Secretary must consider the combined effect of all of the person's impairments, whether or not any one impairment would alone be severe enough to qualify the person for benefits. Provision applies to all determinations made on or after 30 days after enactment.

4. Moratorium on mental impairment reviews

A moratorium is imposed on reviews of all cases of mental impairment disability until the mental impairment criteria in the Listing of Impairments are revised to realistically evaluate the person's ability to engage in SGA in a competitive workplace environment. The revised criteria are to be published within 120 days of the date of enactment. The moratorium applies to all cases on which an administrative or judicial appeal was pending on or after June 7, 1983. All persons claiming benefits based on mental impairment disability who received an unfavorable initial or continuing disability decision after March 1, 1981 could reapply for benefits within 12 months of enactment.

5. Pretermination notice

The Secretary is required to initiate demonstration projects on providing face-to-face interviews for (1) pretermination continuing disability cases and (2) for all initial denial cases, in lieu of face-to-face evidentiary hearings at reconsideration, to be done in at least five States with a report due to the Committees on Ways and Means and Finance April 1, 1986. The Secretary is also required to notify individuals, upon initiating a periodic eligibility review, that termination of benefits could be the result of the review, and that medical evidence may be provided.

6. Continuation of benefits during appeal

Public Law 98-460 provides for continuation of benefits during appeal for all continuing disability review cases through the decision of the administrative law judge, at the election of the individual. Where the ALJ's decision is adverse to the individual, these benefits would have to be repaid. The provision is permanent for SSI disability recipients, and will apply to title II disability beneficiaries through December 1987. The Secretary is required to report to Congress on the impact of this provision by July 1, 1986.

7. Qualifications of medical professionals

The Secretary is to make every reasonable effort, in cases based on mental impairments, to insure that a qualified psychiatrist or psychologist complete the medical portion of the case review and of the residual functional capacity assessment before any determination may be made that an individual is not disabled. The Secretary has the authority to contract directly for such services if the State agency is unable to do so.

8. Standards for consultative examinations/medical evidence

The Secretary is to promulgate regulations regarding consultative examinations, including when they should be obtained, the type of referral to be made, and the procedures for monitoring the referral process. The Secretary must make every effort to obtain necessary medical evidence from the treating physician before evaluating medical evidence from any other source. The Secretary must also consider all evidence in the case record and development of complete medical history over at least the preceding 12-month period.

9. Administrative procedure and uniform standards

Regulations are to be published setting forth uniform standards for DI and SSI disability determinations under section 553 of the Administrative Procedure Act, to be binding at all levels of adjudication.

10. Nonacquiescence

The agreement to drop both the House and Senate provisions is not to be interpreted as approval of the practice of "nonacquiescence", that the conferees note that questions have been raised about the constitutional basis of the practice, that many of the conferees have strong concerns about the current application of the practice, and that a policy of nonacquiescence should be followed only where steps have been taken or are intended to be taken to receive a review of the disputed issue in the Supreme Court. The conferees also urge the Secretary to seek a resolution of the nonacquiescence issue in the Supreme Court.

11. Payment of costs of rehabilitation services

Reimbursement to State agencies is allowed for costs of VR services provided to individuals receiving DI benefits under section 225(b) of the Social Security Act who medically recover while in VR, whether or not the person worked at SGA for 9 months, and whether or not the person failed to cooperate in the program.

12. Direction for Quadrennial Social Security Advisory Council

The next quadrennial advisory council (as required in the Social Security Act) is to study the medical and vocational aspects of disability using ad hoc panels of experts where appropriate. The study must include alternative approaches to work evaluation for SSI recipients, effectiveness of VR programs, and other disability program policies, standards, and procedures. The Secretary must appoint the members by June 1, 1985.

13. Staff attorneys

The Secretary is to report, within 120 days of enactment, to the Committees on Ways and Means and Finance, on the actions taken by the Secretary to establish positions which enable staff attorneys to gain the qualifying experience and quality of experience necessary to compete for ALJ positions. Statement of managers states that it is assumed, given recent OPM actions, that statutory requirements for establishing specific positions are not required, and that the Secretary is urged to take all reasonable steps to see that the OPM actions result in SSA staff attorneys becoming qualified for GS-15 ALJ positions.

14. SSI benefits for persons working despite impairment

Public Law 98-460 extends Sections 1619 (a) and (b) through June 30, 1987, and requires the Secretaries of HHS and [illegible]ucation to establish training programs for staff personnel in SSA district offices and State VR agencies, and disseminate information to SSI applicants, recipients, and potentially interested public and private organizations. Effective retroactive to January 1, 1984.

15. Frequency of continuing eligibility reviews

The Secretary is required to promulgate regulations establishing standards for determining the frequency of continuing eligibility reviews. Final regulations must be issued within 6 months; until that time, no individual may be subject to more than one periodic review.

16. Representative payees for Social Security and SSI beneficiaries

The Secretary is required to (1) evaluate qualifications of prospective payees prior to or within 45 days following certification, (2) establish a system of annual accountability monitoring where payments are made to someone other than a parent or spouse living in the same household with the beneficiary, and (3) report to Congress on implementation, and annually on the number of cases of misused funds and disposition of such cases.

Despite the effective dates established in the law, regulations implementing Public Law 99-460 did not begin to be promulgated until the summer of 1985. The medical improvement regulation was not finally issued until December 1985. As a consequence, continuing disability reviews were not begun again until January 1986; thus, no data are yet available on the actual impact of the new law on the review process.

TABLE 12.—ESTIMATED OUTLAYS RESULTING FROM THE MAJOR PROVISIONS IN PUBLIC LAW 98-460, THE SOCIAL SECURITY DISABILITY BENEFITS REFORM ACT OF 1984

[By fiscal year, in millions of dollars]

	1985	1986	1987	1988	1989
Termination of benefits based on medical improvement:					
DI	86	123	130	136	133
HI and SMI	25	35	40	40	40
Medicaid	3	4	4	4	4
SSI	3	4	4	4	4
Multiple impairments:					
DI	4	7	11	13	15
HI and SMI	(1)	(1)	1	2	2
Medicaid	(1)	1	1	1	1
SSI	1	2	2	3	3
Continued payment during appeal:					
DI	149	134	114	60	−20
HI and SMI	48	50	40	15	0
Medical personnel qualifications:					
DI	(1)	(1)	10	10	20
HI and SMI	(1)	(1)	1	1	3
Medicaid	(1)	(1)	1	1	2
SSI	(1)	(1)	2	2	5
Vocational rehabilitation:					
DI	2	4	7	8	8
HI and SMI	(1)	(1)	(1)	(1)	(1)
SSI	(1)	(1)	(1)	(1)	(1)
Extension of sections 1619a and 1619b:					
Medicaid	10	7	6	0	0
SSI	1	2	2	0	0
Total:					
DI [2]	220	243	247	216	140
HI and SMI	73	85	82	58	45
Medicaid	13	12	12	6	7
SSI	5	8	10	9	12
Total outlays [2]	311	348	351	289	204

[1] Less than $500,000.

[2] The details do not add to the totals due to interaction between provisions.

Note: Preliminary estimates.

Source: Congressional Budget Office.

Section 4. Medicare

Medicare, authorized under title XVIII of the Social Security Act, is a nationwide health insurance program for the aged and certain disabled persons. It consists of two parts: the hospital insurance (part A) program and the supplementary medical insurance (part B) program.

ELIGIBILITY

Most Americans age 65 or older are automatically entitled to protection under part A. Persons age 65 or older who are not "fully insured" (i.e., not eligible for monthly social security or railroad retirement cash benefits) may obtain coverage, providing they pay the full actuarial cost of such coverage. The monthly premium, as of January 1, 1986, is $214. Also eligible, after a 2-year waiting period, are people under age 65 who are receiving monthly social security benefits on the basis of disability and disabled railroad retirement system annuitants. (Dependents of the disabled are not eligible.) Most people who need a kidney transplant or renal dialysis because of chronic kidney disease are, under certain circumstances, entitled to benefits under part A regardless of age.

Part B of Medicare is voluntary. All persons age 65 or older (whether "insured" or not) may elect to enroll in the supplementary medical insurance program by paying the monthly premium. Persons eligible for part A by virtue of disability or chronic kidney disease may also elect to enroll in part B. The premium, as of January 1, 1986, is $15.50 (unchanged from 1985).

NUMBER OF BENEFICIARIES

In fiscal year 1986, approximately 27.8 million aged and 2.9 million disabled will have protection under part A. Of those, it is estimated that 6.5 million aged and 0.7 million disabled will actually receive reimbursed services. In fiscal year 1986, 27.9 million aged and 2.7 million disabled will be enrolled in part B. Over 20.0 million of the aged and 1.9 million of the disabled will receive part B reimbursed services.

TABLE 1.—NUMBER OF AGED AND DISABLED ELIGIBLE ENROLLEES AND BENEFICIARIES AND AVERAGE AND TOTAL MEDICARE BENEFIT PAYMENTS

[Persons in thousands]

	1980 (actual)	1985 (actual)	1986 [1] (estimate)	1987 [1] (estimate)	Actual average annual growth 1980–85
Part A:					
Persons with hospital insurance protection (monthly average):					
Aged	24,572	27,203	27,831	28,449	2.1
Disabled	2,959	2,906	2,942	2,952	−.4
Beneficiaries receiving reimbursed services:					
Aged	5,943	6,430	6,450	6,570	1.6
Disabled	737	745	740	740	.2
Average annual benefit per person enrolled: [2]					
Aged	$853	$1,560	$1,546	$1,588	12.8
Disabled	$951	$1,861	$1,844	$1,901	14.4
Total benefit payments per beneficiary reimbursed:					
Aged	$3,527	$6,599	$6,669	$6,877	13.3
Disabled	$3,817	$7,260	$7,332	$7,582	13.7
Part B:					
Beneficiaries:					
Persons enrolled (average):					
Aged	24,410	27,110	27,865	28,513	2.1
Disabled	2,703	2,671	2,701	2,722	−.2
Beneficiaries receiving reimbursed services:					
Aged	15,525	19,350	20,091	20,772	4.5
Disabled	1,737	1,877	1,912	1,936	1.6
Average annual benefit per person enrolled:					
Aged	$349	$686	$768	$849	14.5
Disabled	$604	$1,094	$1,204	$1,277	12.6
Total benefit payments per beneficiary reimbursed:					
Aged	$548	$961	$1,038	$1,124	11.9
Disabled	$940	$1,714	$1,804	$1,981	12.8

---

[1] Represents current law. Includes Administration regulations but not the legislative proposals. Also includes the impact of Gramm-Rudman (P.L. 97–155).

[2] Does not include administrative cost.

Source: Health Care Financing Administration.

COVERAGE

Most individuals establish entitlement to part A on the basis of work in employment covered by either the Social Security or railroad retirement systems. Certain employment is excluded from Social Security (including part A hospital insurance) taxation.

The Tax Equity and Fiscal Responsibility Act of 1982 extended the hospital insurance tax to Federal employment effective with respect to wages paid on or after January 1, 1983. For calendar year 1985, the tax was 1.35 percent of wages up to $39,600 and for calendar year 1986 it is 1.45 percent of wages up to $42,000. Beginning January 1, 1983, Federal employment is used to determine eligibility for protection under Medicare part A. A transitional provision allows individuals who are in the employ of the Federal Government both before and during January 1, 1983 to have their prior Federal employment considered as employment for purposes of providing Medicare coverage.

BENEFITS

Part A of Medicare will pay for:

1. *Inpatient hospital care.*—All reasonable expenses for the first 60 days minus a deductible ($492 in calendar year 1986) in each benefit period. For days 61–90, a coinsurance amount ($123 in calendar year 1986) is deducted. When more than 90 days are required in a benefit period, a patient may elect to draw upon a 60 day lifetime reserve. A coinsurance amount ($246 in calendar year 1986) is also deducted for each reserve day.

2. *Skilled nursing facility care.*—Up to 100 days (following hospitalization) in a skilled nursing facility for persons in need of continued skilled nursing care and/or skilled rehabilitation services on a daily basis. After the first 20 days, there is a daily coinsurance amount deducted ($61.50 in calendar year 1986).

3. *Home health care.*—An unlimited number of medically necessary home health visits by nurses, therapists, and other health workers for a homebound individual.

4. *Hospice care.*—For the period November 1, 1983 to October 1, 1986, for hospice care services provided to terminally ill Medicare beneficiaries with a life expectancy of 6 months or less.

Part B of Medicare pays 80 percent of the reasonable charges (or of reasonable cost) for covered services in excess of an annual deductible ($75). Services covered include the following:

1. *Doctor's services.*—Including surgery, consultation, and home, office and institutional visits. Certain limitations apply for services rendered by dentists, podiatrists and chiropractors and for the treatment of mental illness.

2. *Other medical and health services.*—Laboratory and other diagnostic tests, X-ray and other radiation therapy, outpatient services at a hospital, rural health clinic services, home dialysis supplies and equipment, artificial devices (other than dental), physical and speech therapy, and ambulance services.

3. *Home health services.*—Unlimited number of medically necessary home health visits. The 20 percent coinsurance and $75 deductible do not apply for such benefits.

Table 3 illustrates the deductible, coinsurance and premium amounts for both part A and part B services from the inception of Medicare.

TABLE 2.—BENEFIT PAYMENTS BY SERVICE UNDER PART A AND PART B, FISCAL YEARS 1977, 1982, AND 1987

[Dollars in millions]

	1977 payments (actual)		1982 payments (actual)		1987 payments [1] (estimate)		Projected average annual growth (1977–87)
	Amount	Percent	Amount	Percent	Amount	Percent	
Part A							
For inpatient hospital services	$14,205	68.9	$32,732	66.6	$47,291	60.7	12.8
For skilled nursing facility services	351	1.7	457	0.9	619	.8	5.8
For home health services	289	1.4	1,154	2.3	2,872	3.7	25.8
For hospice services	0	0	0	0	8	0	....
Total benefit payments	14,905	72.0	34,343	69.8	50,790	65.2	13.0
Part B							
For physician services	4,286	20.7	10,649	21.7	19,074	24.5	16.1
For radiology and pathology services	313	1.5	743	1.5	675	.9	8.0
For outpatient services	889	4.3	2,916	5.7	5,640	7.2	20.3
For other medical and health services	315	1.5	498	1.0	1,787	2.2	19.0
Total benefit payments	5,803	28.0	14,806	30.1	27,176	34.8	16.7
Total	20,708	100.0	49,149	100.0	77,966	100.0	14.2

[1] Represents current law. Includes Administration regulations but not the legislative proposals. Also includes the impact of Gramm-Rudman (P.L. 97–155) and includes the funding for the peer review organizations.

Source: Health Financing Administration.

TABLE 3.—HISTORICAL AND PROJECTED AMOUNTS OF PART A (HOSPITAL INSURANCE) AND PART B (SMI) DEDUCTIBLE, COINSURANCE AND PREMIUMS [1]

For benefit periods begining in	Inpatient hospital [2]			Skilled nursing facility 21st thru 100th day coinsurance per day [5]	HI monthy premium [6]		SMI deductible	SMI premium	
	First 60 days deductible	61st thru 90th day coinsurance per day [3]	60 lifetime reserve days (nonrenewable) coinsurance per day [4]		Effective date	Amount		Effective date	Amount
1966	$40	$10	(7)	(7)			$50	7/66	$3.00
1967	40	10	(7)	$5.00			50		3.00
1968	40	10	$20	5.00			50	4/68	4.00
1969	44	11	22	5.50			50		4.00
1970	52	13	26	6.50			50	7/70	5.30
1971	60	15	30	7.50			50	7/71	5.60
1972	68	17	34	8.50			50	7/72	5.80
1973	72	18	36	9.00	7/73	$33	60	[8] 9/73	6.30
1974	84	21	42	10.50	7/74	36	60	7/74	6.70
1975	92	23	46	11.50	7/75	40	60		6.70
1976	104	26	52	13.00	7/76	45	60	7/76	7.20
1977	124	31	62	15.50	7/77	54	60	7/77	7.70
1978	144	36	72	18.00	7/78	63	60	7/78	8.20
1979	160	40	80	20.00	7/79	69	60	7/79	8.70
1980	180	45	90	22.50	7/80	78	60	7/80	9.60
1981	204	51	102	25.50	7/81	89	60	7/81	11.00
1982	260	65	130	32.50	7/82	113	75	7/82	12.20
1983	304	76	152	38.00		113	75		12.20
1984	356	89	178	44.50	1/84	155	75	1/84	14.60

TABLE 3.—HISTORICAL AND PROJECTED AMOUNTS OF PART A (HOSPITAL INSURANCE) AND PART B (SMI) DEDUCTIBLE, COINSURANCE AND PREMIUMS [1] —Continued

For benefit periods begining in	Inpatient hospital [2]			Skilled nursing facility 21st thru 100th day coinsurance per day [5]	HI monthy premium [6]		SMI deductible	SMI premium	
	First 60 days deductible	61st thru 90th day coinsurance per day [3]	60 lifetime reserve days (nonrenewable) coinsurance per day [4]		Effective date	Amount		Effective date	Amount
1985	400	100	200	50.00	1/85	174	75	1/85	15.50
1986	492	123	246	61.50	1/86	214	75	1/86	15.50
1987 [9]	572	143	286	71.50	1/87	248	75	1/87	17.80
1988 [9]	616	154	308	77.00	1/88	267	75	1/88	18.50
1989 [9]	648	162	324	81.00	1/89	281	75	1/89	19.30
1990 [9]	688	172	344	86.00	1/90	299	75	1/90	20.00
1991 [9]	732	183	366	91.50	1/91	318	75	1/91	20.70

---

[1] For services furnished on or after January 1, 1982, the coinsurance amounts are based on the inpatient hospital deductible for the year in which the services were furnished. For services furnished prior to January 1, 1982, the coinsurance amounts are based on the inpatient hospital deductible applicable for the year in which the individual's benefit period began.

[2] For care in psychiatric hospital—190 day lifetime limit.

[3] Always equal to ¼ of inpatient hospital deductible.

[4] Always equal to ½ of inpatient hospital deductible.

[5] Always equal to ⅛ of inpatient hospital deductible.

[6] Not applicable prior to July 1973. Applies to individuals who are not fully insured.

[7] Not covered.

[8] For August 1973 the premium was $6.10.

[9] Administration projections under current law.

Note: In addition to the deductible and coinsurance amounts shown in the table, the first 3 pints of blood are not reimbursed by Medicare. Currently there is no deductible or coinsurance on home health benefits. From January 1973 to June 30, 1982, there was a $60 annual deductible and prior to July 1, 1981, benefits were limited to 100 visits per benefit period under part A and 100 visits per calendar year under part B. Special limits apply to certain benefits: (1) Outpatient physician services for mental illness: 50 percent of approved charges; up to a maximum of $250 in benefits per year; (2) Physical therapy services furnished by physical therapists in independent practice: Maximum annual approved charges July 1, 1973, through December 31, 1981, $80 per year; January 1, 1982 through December 31, 1982, $400 per year, and January 1, 1983 and thereafter, $500 per year.

Source: Health Care Financing Administration.

ADMINISTRATION

Responsibility for administration of the Medicare program has been delegated by the Secretary of Health and Human Services to the Administrator of the Health Care Financing Administration (HCFA). Much of the day-to-day operational work of the program is performed by "intermediaries" and "carriers" which have responsibility for reviewing claims for benefits and making payments.

In general, hospitals and other providers paid under part A of Medicare can nominate, subject to HCFA's approval, a national, State, or other public or private agency to serve as a fiscal intermediary between themselves and the Federal Government.

The Secretary enters into contracts with insurance organizations to serve as carriers. The carrier must perform its obligations under the contract efficiently and effectively and must meet such requirements as to financial responsibility, legal authority, and other matters as the Secretary finds pertinent. The carrier must ensure that payments made to providers under part B on a reasonable cost or reasonable charge basis (as may be applicable) are reasonable.

Medicare administrative costs amount to approximately 2.5 percent of program outlays.

Hospitals

The Social Security Amendments of 1983 (Public Law 98-21) altered the way in which Medicare pays hospitals. From the inception of the program, Medicare had paid hospitals on a "reasonable cost" basis. Effective October 1, 1983, Medicare began paying under a prospective payment system. Medicare payments for inpatient operating costs of hospitals are determined in advance and made on a per discharge basis. A fixed amount per case is paid based upon the type of case or "diagnosis-related group" (DRG) into which the case is classified.

The payment system is not applied to capital-related costs nor to direct medical education costs. These expenses continue to be reimbursed on a reasonable cost basis. Capital costs will no longer be excluded from the system beginning October 1, 1986. Certain hospitals excluded from the system are: psychiatric, long-term care, children's and rehabilitation hospitals. Excluded hospitals continue to be paid based on reasonable costs subject to certain rate of increase limitations.

Additional payments are made for extraordinarily costly cases and for the indirect costs of medical education. An adjustment is made for the wage level in the area in which the hospital is located. In addition, there are certain other exceptions and adjustments including those for sole community providers, national and regional referral centers, and cancer treatment centers.

The payment system will be phased in over 3 years from payments based on an individual hospital's historical costs to payments based on the new prospective payment rates. In addition, the system will be phased in from payments representing nine regional payment levels to one national payment level for each DRG. There will be separate payment levels for urban and rural areas.

Hospitals and other institutional providers receiving payment under Medicare part A submit bills on behalf of the beneficiary and agree to accept the program's payment as payment in full. In general, providers are permitted to charge beneficiaries only the deductible and coinsurance amounts authorized by law.

Physicians

Medicare law provides that payments are to be made to or on behalf of persons enrolled under part B of the Medicare program for expenses incurred by them for covered physicians' services and for covered services provided by other noninstitutional providers. After certain deductible and coinsurance amounts have been met, Medicare pays for covered physician services on the basis of "reasonable charges".

The reasonable charge for a specific service, in the absence of unusual medical complications, can be: (1) no higher than the individual practitioner's *customary charge for that service;* (2) no higher than the applicable *prevailing charge* for similar services in the locality; and (3) no higher than the *actual charge* of the individual physician rendering the service.

Customary and prevailing charge screens used to calculate the reasonable charge (approved charges) are usually updated every July 1. The Deficit Reduction Act of 1984 (Public Law 98-369) froze the amount Medicare reimburses for physician services for the 15-month period beginning July 1, 1984, through September 30, 1985. Therefore, the annual increases in customary and prevailing charges otherwise slated for July 1, 1984, did not occur. Future increases will occur on Oct. 1. In addition, the legislation provided that physicians would not be allowed to increase their actual charges to beneficiaries during this 15-month freeze period, unless the physician was a participating physician under the Medicare program. (A full explanation of physician reimbursement and of the changes made in Public Law 98-369 appear in Appendix D.)

Public Laws 99-107, 99-155, 99-181, 99-189, and 99-201 extended through March 14, 1986 the payment terms established in DEFRA 1984. Physicians are bound during the extension period by the decisions they made regarding participation for the year beginning October 1, 1985 and are subject to the corresponding payment rules.

The following table shows the number of participating institutions and organizations.

TABLE 4.—PARTICIPATING INSTITUTIONS AND ORGANIZATIONS (JUNE 1985)

Hospitals	6,707
Short stay	6,034
Long stay	673
Skilled nursing facilities	6,451
Home health agencies	5,679
Independent laboratories	3,980
Outpatient physical therapy providers	854
Portable X-ray suppliers	308
Rural health clinics	428
Comprehensive outpatient rehabilitation facilities	72
Ambulatory surgical centers	336

TABLE 4.—PARTICIPATING INSTITUTIONS AND ORGANIZATIONS (JUNE 1985)—Continued

Hospices	164
Facilities providing services to renal disease beneficiaries	1,407
Hospitals certified as both renal transplant and renal dialysis centers	150
Hospitals certified as renal transplant centers	27
Hospital dialysis facilities	124
Non-hospital renal dialysis facilities	691
Dialysis centers only	363
Inpatient care	52

HOSPITAL AND SKILLED NURSING FACILITY BEDS (JUNE 1985)

Hospitals	1,143,638
Short stay	1,026,511
Long stay	117,127
Skilled nursing facilities	[1] 548,203

[1] As of January 1985.

Source: Health Care Financing Administration.

END STAGE RENAL DISEASE PROGRAM

In 1972, Public Law 92-603 was signed extending Medicare coverage for certain individuals with chronic renal failure. The Medicare program covers individuals, under age 65, who suffer from end stage renal disease, if they are (1) fully insured for old age and survivor insurance benefits, or (2) are entitled to either monthly social security benefits, or (3) are spouses or dependents of individuals described in (2). Such persons must be medically determined to be suffering from end stage renal disease and must file an application for benefits. Approximately 7 percent of the population suffering from end stage renal disease (ESRD) does not meet any of these requirements and thus are not covered for Medicare renal benefits.

Benefits for qualified end stage renal disease beneficiaries include all part A (hospital insurance) and part B (supplementary medical insurance) medical items and services. ESRD beneficiaries are automatically enrolled in the part B portion of Medicare and must pay the monthly premium for such protection.

Table 5 shows program expenditures, number of beneficiaries, and the average expenditure per person from 1974 to projected expenditures and beneficiaries through 1990. Total projected program expenditures for Medicare end stage renal disease program for fiscal year 1987 amount to $2.8 billion. In fiscal year 1987, there are projected to be 99,700 ESRD beneficiaries including successful transplant patients.

TABLE 5.—ESRD MEDICARE BENEFICIARIES AND PROGRAM EXPENDITURES

[Dollars in millions]

Year	Expenditures	Beneficiaries	Per person
1974	$229	15,993	$14,300
1975	361	22,674	15,900
1976	512	28,941	17,700
1977	641	35,889	17,900
1978	800	43,482	18,400
1979	1,010	52,636	19,200
1980	1,250	60,814	20,600
1981	1,472	68,288	21,500
1982	1,650	75,097	22,000
1983	1,889	81,873	23,100
1984	2,100	87,000	24,200
1985	2,300	92,000	25,400
1986	2,600	96,100	26,700
1987	2,800	99,700	28,000
1988	3,000	102,600	29,500
1989	3,200	104,800	30,900
1990	3,500	106,400	32,500

Note: Projections for 1985–90 are subject to revision by the Office of Financial and Actuarial Analysis.

Source: Office of Research, Health Care Financing Administration, Department of Health and Human Services.

Outpatient maintenance dialysis can be provided in either a hospital-based setting or independent (often called freestanding) setting.

Until 1983, payment for maintenance dialysis under Medicare had been based on cost-based principles in the case of outpatient dialysis care furnished by hospitals and on the basis of "reasonable" or allowed charges in the case of services provided by independent (or freestanding) dialysis treatment facilities.

In 1981, the Congress passed Public Law 97-35 which required the Secretary to establish dual, or separately calculated, prospective rates for hospital-based and for freestanding facilities. Congress expressed a preference that these formulas be composite in nature, that is, they take into account the proportions of hospital-based and independent facility patients dialyzing at home and the relative costs of providing dialysis at home and in the facility setting.

Under the regulations implementing the law, before any exceptions are taken into account, the average (base) payment rate under the prospective payment system is $127 per treatment for independent facilities and $131 per treatment for hospital units, regardless of whether the treatment is furnished in the facility or in the patient's home. The payment rates are adjusted by an area wage index to take into account differences in the local labor costs of dialysis facilities so that the actual payment rates (without any adjustments for exceptions) may vary above and below the average payment rates established for hospital-based and independent dialysis units. The new prospective payment system was implemented as of August 1, 1983.

Kidney transplants are covered for Medicare beneficiaries. The cost incurred by the kidney donor are reimbursed by Medicare even if the donor is not a Medicare beneficiary. Medicare reimbursed more than 90 percent of the kidney transplants performed in the United States. Table 6 shows the numbers of transplants performed in Medicare-certified hospitals.

TABLE 6.—TOTAL KIDNEY TRANSPLANTS PERFORMED IN MEDICARE CERTIFIED U.S. HOSPITALS

Calendar year	Total transplants	Living donor		Cadaveric donor	
		Number	Percent	Number	Percent
1979	4,189	1,186	28	3,003	72
1980	4,697	1,275	27	3,422	73
1981	4,883	1,458	30	3,425	70
1982	5,358	1,677	31	3,681	69
1983	6,112	1,784	29	4,328	71
1984	6,968	1,704	24	5,364	76

HOME HEALTH

The hospital insurance (part A) and the supplementary medical insurance (part B) programs cover home health services without a deductible or coinsurance charge. There is no limitation on the number of home health visits covered under the home health program, and there is no prior hospitalization requirement. When an individual is covered under parts A and B of the Medicare program, the individual will generally receive payment for home health services under part A of the program.

Reimbursement to home health agencies is based on Medicare rules for reasonable cost reimbursement. However, home health agencies are required to use the cost per visit by type of service for apportioning costs. Under this method, the total allowable costs of all visits for each type of service (skilled nursing, home health aide, etc.) is divided by the total number of visits by type of service. These average cost per visit amounts are multiplied by the number of covered Medicare visits for each type of service. The products represent the cost Medicare will recognize by type of service, subject to home health agency cost limits.

Cost limits for home health agencies were set at the 75th percentile of average per visit costs. Though the limits were established by type of service, they were applied to each agency as a single aggregate limit based on the number of visits for each type of service.

Public Law 97-248 required the Secretary to establish a single reimbursement limit for home health agencies based on the cost experience of freestanding home health agencies. In establishing the single limits, the Secretary was required to make adjustments, as appropriate, for hospital-based home health agencies based on legitimate cost differences resulting from such factors as a more complex case mix and the effects of Medicare cost allocation requirements. The single limits were published July 2, 1984. An "add on" for hospital based facilities was provided.

However, the administration, in revised final regulations published on July 5, 1985, established the following home health visit methodology: For cost-reporting periods beginning on or after July 1, 1985, the limits are set at 120 percent of the mean and are applied separately to each type of service. For cost reporting periods beginning on or after July 1, 1986, the limits are reduced to 115 percent of the mean, and for visit reporting periods beginning on or after July 1, 1987, the limits are set at 112 percent of the mean.

The Medicare home health benefit is the fastest growing part of the Medicare program. Table 7 below indicates the increase in Medicare program expenditures for home health care.

TABLE 7.—MEDICARE HOME HEALTH SERVICES

Calendar year	Total Medicare reimbursements (millions)	Percent change	Total Medicare visits (millions)	Visits per 1,000 enrollees	Visits per user	Average charge per visit
1969	$81		8.5	424		$10
1970	63	−22.7	6.0	291		12
1971	57	−8.8	4.8	226		13
1972	66	15.7	5.2	241		14
1973	93	40.9	6.4	265		15
1974	139	48.6	7.9	340	20.6	17
1975	215	55.1	10.8	431	21.6	20
1976	297	38.1	13.6	520	22.7	22
1977	371	24.9	15.8	597	22.5	25
1978	443	19.4	17.6	639	22.5	27
1979	542	22.4	20.0	717	22.9	30
1980	666	22.9	22.6	792	23.4	33
1981	860	29.1	26.2	902	24.3	36
1982	1,121	30.3	31.3	1,060	26.3	40
1983	1,425	27.1	37.6	1,252	27.3	43
1984 [1]	1,897	24.3	37.9	1,352	27.0	50
1985 [1]	2,290	20.7	42.4	1,432	26.5	54
1986 [1]	2,555	11.6	44.8	1,512	26.5	57
1990 [1]	3,958	[2] 11.6	56.5	1,727	24.7	70

[1] Includes interim reimbursements and retroactive adjustments resulting from end-of-fiscal-year cost settlements.

[2] Average projected fiscal year growth, 1986–90.

Source: HCFA/Bureau of Data Management and Statistics.

HOSPICE CARE

Public Law 97-248 authorizes Medicare part A coverage for hospice care services provided to individuals who are entitled to Medicare part A benefits and who are certified to be terminally ill.

On December 16, 1983, the Health Care Financing Administration (HCFA), published regulations to implement the hospice provisions of Public Law 97-248. Among other things, the regulations establish requirements for eligibility, covered benefits, services, reimbursement procedures, and the conditions a hospice must meet to be approved for participation in the Medicare program.

Part A beneficiaries may elect to receive hospice care in lieu of most other Medicare benefits for up to two periods of 90 days each, plus an additional 30 days.

The statute provides that payment to hospice providers be equal to the costs which are reasonable and related to the cost of providing hospice care, or which are based on such other tests of reasonableness as the Secretary may prescribe, subject to a "cap amount." The cap amount for a beneficiary for a year is $6,500, adjusted annually by the Medical component of the CPI.

HCFA has implemented a prospective payment methodology for hospice care. Under this methodology, hospices would be paid one of several predetermined rates for each day a Medicare beneficiary is under the care of the hospice. The rates would vary according to the level of care furnished to the beneficiary. Total reimbursement to a hospice for care furnished to the Medicare beneficiary would vary by the length of the patient's period in the hospice program as well as by the characteristics of the services (intensity and site) program furnished to the beneficiary.

The regulations established four basic payment categories. The payment rates are national rates which are adjusted by the BLS wage index for an area. The published payment rates were:

(a) *Routine home care day.*—Routine home care day is a day on which an individual who has elected to receive hospice care is at home and is not receiving continuous home care. The routine home care rate would be paid for every day a patient is at home and under the care of the hospice regardless of the volume or intensity of the services provided on any given day as long as less than 8 hours of care are provided. Under the regulations the national rate for a home care day is $46.25. Public Law 98-617 increased the national rate to $53.17.

(b) *Continuous home care day.*—A continuous home care day is day on which an individual who has elected to receive hospice care receives hospice care consisting predominantly of nursing care on a continuous basis at home. Home health aide or homemaker services or both may also be provided on a continuous basis. Continuous home care is furnished only during brief periods of crisis and only as necessary to maintain the terminally ill patient at home. Home care would have to be provided for a period of at least 8 hours before it would be considered to fall within the category of continuous home care. The national payment amount is $358.67 for twenty-four hour care.

(c) *Inpatient respite care day.*—An inpatient respite care day is one on which the individual who has elected hospice care receives care in an approved facility on a short-term (not more than 5 days at a time) basis for the respite of his caretakers. The national payment rate is $55.33.

(d) *General inpatient care day.*—A general inpatient care day is one on which an individual who has elected hospice care receives general inpatient care in an inpatient facility for pain control or acute or chronic symptom management which cannot be managed in other settings. Care may be provided in a hospital, skilled nursing facility or inpatient unit of a freestanding hospice. The national payment rate is $271.00.

Public Law 98-617 also required the Secretary of HHS to review and adjust the hospice rates annually, beginning October 1, 1985. According to the Secretary, cost data were not available in order for the rates to be updated.

SKILLED NURSING FACILITY

In general, skilled nursing facilities are reimbursed on the basis of reasonable costs subject to certain limits.

Reimbursement limits for skilled nursing facilities have been established for inpatient general routine service costs. Limits are set at 112 percent of the average labor-related and average non-labor related costs of each comparison group.

The Tax Equity and Fiscal Responsibility Act of 1982 (Public Law 97-248) required the Secretary to establish a single payment limit for both freestanding and hospital-based skilled nursing facilities (SNF's) based on the cost experience of freestanding facilities, subject to adjustments for hospital-based SNF's deemed appropriate. The provision was to be effective October 1, 1982. The Social Security Amendments of 1983 (Public Law 98-21) postponed the effective date for 1 year. This provision was further modified in Public Law 98-369 (the Deficit Reduction Act of 1984). The law provides that for cost reporting periods beginning on or after October 1, 1982, and prior to July 1, 1984, hospital-based facilities and freestanding facilities would be reimbursed on the same basis used to calculate reimbursement limits that had been in effect prior to the passage of the Tax Equity and Fiscal Responsibility Act (i.e., going back to prior law). For cost reporting periods beginning on or after July 1, 1984, separate limits would continue to be established for freestanding facilities in urban and rural areas at 112 percent of the mean operating costs of urban and rural freestanding facilities, respectively. Limits for urban or rural hospital-based facilities would be set at the appropriate freestanding facility limit plus 50 percent of the difference between the freestanding facility limit and 112 percent of the mean operating costs of hospital-based facilities. Adjustments to take account of administrative costs for hospital based facilities would be allowed as an add on. Proposed regulations were issued November 22, 1985. However, as of publication, final regulations have not been issued.

In addition, Public Law 98-21 required the Secretary to report by December 31, 1983 on the effect of the implementation of the TEFRA single-rate provision on hospital-based SNF's, given the difference (if any) in the patient populations served by such facilities and by freestanding SNF's. Further, the Secretary was required to report by the end of 1983 on the impact of hospital prospective payment on SNF's. This report was received January 18, 1985.

Public Law 97-248 also required the Secretary to develop, in consultation with the Senate Finance Committee and the House Committee on Ways and Means, proposals for the prospective reimbursement of SNF's. The Secretary was required to report on these proposals to Congress by December 31, 1982. Public Law 98-21 further delayed the deadline for the report to December 1983. The report was not sent. Public Law 98-369 further delayed the requirement. The Secretary was required to submit to Congress by August 1, 1984, the results of the study required in TEFRA. In addition the Secretary was required to report to Congress by December 1, 1984, on the range of options available for prospective payment of skilled nursing facilities.

UTILIZATION AND QUALITY CONTROL PEER REVIEW PROGRAM

The Social Security Amendments of 1972 provided for the establishment of Professional Standards Review Organizations (PSRO's) throughout the country which were charged with the comprehensive and on-going review of services provided under Medicare, Medicaid, and the maternal and child health programs. PSRO's determined, for purposes of reimbursement under these programs, whether services are: (1) Medically necessary, (2) provided in accordance with professional standards, and (3) in the case of institutional services, rendered in the appropriate setting.

The Tax Equity and Fiscal Responsibility Act of 1982 repealed the existing PSRO program and established a new program. Under this new program, a Peer Review Organization (PRO) is defined as an entity which is either composed of a substantial number of the licensed doctors of medicine and osteopathy practicing in the area or has available to it sufficient numbers of such physicians so that adequate peer review of various medical services can be assured.

The PRO program is similar to the PSRO program with the following important distinctions. Under the new program, eligible organizations may be either for-profit or non-profit and may be either physician groups or have available to them sufficient physicians to perform review. The Secretary is required to consolidate existing PSRO geographic areas. Each State has been designated as a single area, plus the District of Columbia, Puerto Rico, the Virgin Islands, Guam, and American Samoa (54 PRO's). The Secretary is required to enter into a contract with a peer review organization for each geographic area. Priority consideration must be given to physician-sponsored organizations; payor organizations were excluded from participation until October 1, 1984. Contracts with provider or provider-affiliated organizations are prohibited though subcontracts with such entities are permitted. As of January 1, 1985, the Secretary had entered into agreements with 53 physician-sponsored organizations and one fiscal intermediary. The law provides that contracts are for an initial period of 2 years, renewable biennially. Contracts with PRO's must specify objectives to be achieved for each PRO over the contract period. Performance will be rated in terms of meeting these goals.

These entities may review, subject to the provisions of the contracts, the professional activities of physicians, other practitioners and institutional and noninstitutional providers in rendering services to Medicare beneficiaries. The review is to focus on the necessity and reasonableness of care, quality of care, and the appropriateness of the setting. The determinations of the peer review organizations would ordinarily be binding for purposes of determining whether benefits should be paid.

States are authorized to contract with review organizations for Medicaid review and 75 percent Federal matching is authorized for such purpose.

Hospitals were required to sign an agreement with a PRO in the area on or before November 15, 1984, as a condition of receiving payment under the Medicare program.

FINANCING

Background

The Medicare part A Hospital Insurance Trust Fund (HI) finances inpatient hospital, skilled nursing facility, home health and other institutional services. The part B Supplementary Medical Insurance Trust Fund (SMI) finances principally physician and hospital outpatient services.

The Hospital Insurance Trust Fund is financed primarily through Social Security payroll tax contributions paid by employers, employees and the self-employed. The payroll tax rate for calendar year 1985 was 1.35 percent of earnings up to $39,600 per employee, and for 1986 it is 1.45 percent up to $42,000 per employee. An equal contribution rate is paid by the employer. Table 8 shows the contribution rates and maximum taxable earnings for both HI and the old-age, survivors and disability insurance (OASDI) programs.

TABLE 8.—CURRENT LAW SOCIAL SECURITY PAYROLL TAX RATES FOR EMPLOYERS AND EMPLOYEES EACH AND TAXABLE EARNINGS BASES

Calendar year	Employee and employer rates, each (percent)			Taxable earnings base	Maximum HI tax
	OASDI combined	HI	OASDHI combined		
1977	4.95	0.90	5.85	$16,500	$148.50
1978	5.05	1.10	6.05	17,700	194.70
1979	5.08	1.05	6.13	22,900	240.45
1980	5.08	1.05	6.13	25,900	271.95
1981	5.35	1.30	6.65	29,700	386.10
1982	5.40	1.30	6.70	32,400	421.20
1983	5.40	1.30	6.70	35,700	464.10
1984	5.70	1.30	7.00	37,800	491.40
1985	5.70	1.35	7.05	39,600	534.60
1986	5.70	1.45	7.15	42,000	609.00

TABLE 8.—CURRENT LAW SOCIAL SECURITY PAYROLL TAX RATES FOR EMPLOYERS AND EMPLOYEES EACH AND TAXABLE EARNINGS BASES—Continued

Calendar year	Employee and employer rates, each (percent)			Taxable earnings base	Maximum HI tax
	OASDI combined	HI	OASDHI combined		
1987	5.70	1.45	7.15	([1])	([1])
1988	6.06	1.45	7.51	([1])	([1])
1989	6.06	1.45	7.51	([1])	([1])
1990	6.20	1.45	7.65	([1])	([1])

[1] The maximum earnings subject to the tax increases each year in accordance with the increase in average earnings.

Those who are uninsured under part A may elect to enroll by paying the full cost of coverage. The cost of the monthly premium for calendar year 1986 is $214.

Part B, which is voluntary, is financed from premiums paid by the aged, disabled and chronic renal disease enrollees and from the general revenues. The premium rate is derived annually based upon the projected costs of the program for the coming year. Under prior law, the premium rate was changed on July 1 of each year. The Social Security Amendments of 1983 (Public Law 98-21) moved the premium increase date to January 1 of each year to coincide with the changed date for the annual Social Security cash benefit cost-of-living (COLA) increase.

Ordinarily, the premium rate is the lower of: (1) an amount sufficient to cover one-half of the costs of the program for the aged or (2) the current premium amount increased by the percentage by which cash benefits were increased under the COLA provisions of the Social Security program. Premium income, which originally financed half of the costs of part B, had declined—as a result of this formula—to less than 25 percent of total program income.

The Tax Equity and Fiscal Responsibility Act of 1982 (Public Law 97-248), temporarily suspended the COLA limitation for 2 years—calendar years 1984 and 1985. During this period, enrollee premiums will be allowed to increase to amounts necessary to produce premium income equal to 25 percent of program costs for elderly enrollees. The Deficit Reduction Act of 1984 (Public Law 98-369) extended the TEFRA provision through calendar years 1986 and 1987. The premium beginning January 1, 1986, is $15.50 per month (unchanged from 1985).

As noted above, the premiums paid by part B enrollees finance only one-quarter of the cost of the program. The remaining cost is financed from the Federal general revenues.

FINANCIAL STATUS OF THE TRUST FUNDS

The Hospital Insurance Trust Fund balances are dependent upon the income to the HI trust fund primarily through payroll taxes exceeding the outlays for Medicare benefits and administrative costs. Outlays are affected by increases in inpatient hospital expenditures which have been rising at a faster rate than the income to the HI trust fund. Table 9 shows the percentage increase in Medicare outlays from fiscal year 1967 to fiscal year 1985 and the CBO projections from 1986 to 1991. According to the Congressional Budget Office, hospital costs attributable to Medicare beneficiaries are projected to increase over the 1987-91 period at an average annual rate of 10.9 percent, while income is projected to grow at an annual rate of 7.5 percent. The CBO baseline assumes DRG rates will be increased by 2 percent on October 1, 1986, and by market basket for each fiscal year thereafter.

Due to this excess of outlays over income, the HI trust fund faces serious financial difficulties in the future. Under current policies, the trust fund is expected to be depleted in the middle to latter part of the next decade.

TABLE 9.—MEDICARE OUTLAYS, FISCAL YEARS 1967–91

Fiscal year	Part A		Part B		Total	
	Dollars (in millions)	Percent increase (over prior year)	Dollars (in millions)	Percent increase (over prior year)	Dollars (in millions)	Percent increase (over prior year)
1967	2,597		799		3,396	
1968	3,815	46.9	1,532	91.7	5,347	57.4
1969	4,758	24.7	1,840	20.1	6,598	23.4
1970	4,953	4.1	2,196	19.3	7,149	8.4
1971	5,592	12.9	2,283	4.0	7,875	10.2
1972	6,276	12.2	2,544	11.4	8,820	12.0
1973	6,842	9.0	2,637	3.7	9,479	7.5
1974	8,065	17.9	3,283	24.5	11,348	19.7
1975	10,612	31.6	4,170	27.0	14,782	30.3
1976 [1]	12,579	18.5	5,200	24.7	17,779	20.3
1977	15,207	20.9	6,342	22.0	21,549	21.2
1978	17,862	17.5	7,350	15.9	25,211	17.0
1979	20,343	13.9	8,805	19.8	29,148	15.6
1980	24,287	19.4	10,746	22.1	35,034	20.2
1981	29,248	20.4	13,240	23.2	42,488	21.3
1982	34,864	19.2	15,559	17.5	50,423	18.7
1983	38,551	10.6	18,317	17.7	56,868	12.8
1984	42,295	9.7	20,374	11.2	62,669	10.2
1985 [2]	48,667	15.1	22,730	11.6	71,397	13.9
1986 (est.)	49,007	0.7	25,134	10.6	74,141	3.8
1987 (est.)	53,217	8.6	28,678	14.1	81,895	10.5
1988 (est.)	58,889	10.7	32,967	15.0	91,856	12.2
1989 (est.)	65,265	10.8	37,180	12.8	102,445	11.5
1990 (est.)	72,473	11.0	41,856	12.6	114,329	11.6
1991 (est.)	80,487	11.1	47,166	12.7	127,653	11.7

---

[1] In the transition quarter from July to October 1976 (when the beginning of the Federal fiscal year was changed), outlays were $4,805 million. These outlays do not appear in the table.

[2] HI outlays are $1.3 billion higher in fiscal year 1985 because of a delay in periodic intern payments.

Source: 1984 Annual Report of the Board of Trustees: Federal Hospital Insurance Trust Fund and Supplementary Medical Insurance Trust Fund and CBO projections for 1986 through 1991 under current law.

Interfund borrowing

The Old-Age and Survivors Trust Fund has borrowed $12.4 billion from the HI trust fund.

The OASI trust fund was first authorized to borrow from the HI trust fund and the Disability Insurance (DI) Trust Fund in Public Law 97-123. The Social Security Amendments of 1983 (Public Law 98-21) extended the interfund borrowing authority from 1982 through 1987.

Under the law, loans would be required to be repaid at the earliest possible date, but not later than 1989. OASDI could not borrow from HI in any month in which the HI trust fund ratio is under 10 percent. In 1983 through 1987, OASDI would repay loans from HI whenever the OASDI fund ratio at the end of the year exceeded 15 percent. In 1988 through 1989, OASDI would repay HI the loan balance outstanding at the end of 1987 plus outstanding interest. On January 31, 1985, the OASI fund repaid $1.8 billion in principal on the loan to the HI fund. The repayment was completed with payments in January of 1986.

Supplementary medical insurance

Because the Supplementary Medical Insurance Trust Fund (SMI) is financed through beneficiary premiums and the general revenues, it does not face the prospect of depletion as does the HI trust fund. However, the rapidly rising cost of health care is placing a heavy burden on the SMI trust fund—causing beneficiary premiums to rise and increasing the Federal deficit.

CBO estimates that SMI outlays will increase at an annual rate of 13.4 percent from 1986 through 1991. The share of general revenues necessary to finance the SMI trust fund will rise from 3.8 percent to 4.9 percent between 1986 to 1991. By share of general revenues, it is meant the amount of total revenues less revenues earmarked for certain functions (e.g., payroll taxes).

HI trust fund income, outlays, and balance

Table 10 shows the projections of the Congressional Budget Office under its baseline, low and high growth alternatives and the administration for the HI trust funds with respect to income, outlays and balances for the years 1985 through 1991.

The projections shown in table 10 for the hospital insurance component of Medicare are particularly uncertain after 1986 because of uncertainties concerning future hospital reimbursements. The Social Security Amendments of 1983 instituted a prospective reimbursement system for inpatient hospital services. For 1984 and 1985, the Social Security Amendments gave guidance concerning the setting of the DRG rates.

During the first two years of the new prospective payment system, the DRG rates were to be budget neutral. The Deficit Reduction Act of 1984 established a maximum cap on the rate of increase of DRG rates in 1986. After 1986, the DRG rates are to be set by the Secretary of Health and Human Services, advised by an independent commission. For 1986, CBO assumes the DRG rates were frozen at their 1985 levels and then hospital reimbursement is reduced by 1 percent from March 1, 1986, to September 30, 1986, due to the Balanced Budget and Emergency Deficit Control Act of 1985 (Public Law 99-177). For 1987, both CBO and the administration assume DRG rates will increase by 2 percent. For 1988-1990 both CBO and the administration assume that DRG rates will grow at a rate equal to the increase in the cost of a market basket of goods and services typically purchased by hospitals. In addition, hospital insurance outlays also rise with projected increases in eligible beneficiaries and hospital utilization.

However, there are some important conceptual differences between the CBO and administration estimates which explain why the HI trust fund balances are larger in the administration estimates as compared to the CBO estimates. In the administration estimates, savings from the administration proposals which the administration contends can be instituted by regulation are incorporated into the estimates shown in Table 10. These include the prospective payment formula for capital, the reform of direct medical educational payments, and other proposals. Estimates of the administration's legislative proposals are not included. CBO does not incorporate either the legislative or regulatory initiatives in its estimates.

Under the baseline projections, from 1987 to 1991, outlays increase at an annual rate of 10.9 percent while income increases at an annual rate of 7.5 percent. This leaves a projected balance in the HI trust fund at the end of 1991 of $72.3 billion.

Under the low growth projections, outlays increase at an annual rate of 9.4 percent while income grows at an annual rate of 4.9 percent from 1987 to 1991. This difference of 4.5 percent between outlays and income compared to the baseline difference of 3.4 percent, causes the balance at the end of fiscal year 1991 to be lower: $53.4 billion compared to the baseline balance of $72.3 billion.

Under the high growth projections outlays increase at an annual rate of 13.1 percent compared to income growth of 10.3 percent per year. This leaves a balance of $81.5 billion at the end of fiscal year 1991. The perceived financial status of the HI trust fund in the future is dependent upon the estimated outlay growth compared to revenue growth. A small difference in the assumptions underlying those projections can create large differences in when the HI trust fund will be depleted and upon the amounts needed to keep the trust fund balances positive through a given time period.

TABLE 10.—PROJECTIONS FOR THE HOSPITAL INSURANCE TRUST FUND, BUDGET AUTHORITY, AND OUTLAYS, FISCAL YEARS, UNDER CBO BASELINE, LOW AND HIGH GROWTH SET OF ECONOMIC ASSUMPTIONS AND ADMINISTRATION ASSUMPTIONS, PRESENT LAW

[In billions]

	1985	1986	1987	1988	1989	1990	1991
CBO baseline:							
Total outlays	48.7	49.0	53.2	58.9	65.3	72.5	80.5
Income [1]	52.8	67.3	62.3	67.6	72.3	77.7	83.2
Year-end-balance	21.3	39.6	48.7	57.4	64.4	69.6	72.3

TABLE 10.—PROJECTIONS FOR THE HOSPITAL INSURANCE TRUST FUND, BUDGET AUTHORITY, AND OUTLAYS, FISCAL YEARS, UNDER CBO BASELINE, LOW AND HIGH GROWTH SET OF ECONOMIC ASSUMPTIONS AND ADMINISTRATION ASSUMPTIONS, PRESENT LAW—Continued

[In billions]

	1985	1986	1987	1938	1989	1990	1991
Start of year balance, as percent of outlays	35	43	74	83	88	89	86
CBO low growth:							
Total outlays	48.7	49.0	53.2	58.4	63.8	69.8	76.1
Income [1]	52.8	66.9	60.9	63.6	66.8	70.6	73.7
Year-end-balance	21.3	39.2	46.8	52.0	55.0	55.8	53.4
Start of year balance, as percent of outlays	35	43	74	80	81	79	73
CBO high growth:							
Total outlays	48.7	49.0	53.2	59.2	66.8	75.9	87.1
Income [1]	52.8	67.5	62.9	69.0	75.4	83.4	93.1
Year-end-balance	21.3	39.7	49.4	59.3	67.9	75.5	81.5
Start of year balance, as percent of outlays	35	43	75	84	89	90	87
Administration:							
Total outlays	48.7	49.2	51.7	55.9	61.1	66.6	72.3
Income [1]	52.8	67.3	62.6	68.2	72.9	77.9	82.3
Year-end-balance	21.3	38.6	49.5	61.8	73.6	84.9	94.9
Start of year balance, as percent of outlays	35	43	75	89	101	111	117

[1] Income to the trust funds is budget authority. It includes payroll tax receipts, interest on balances, and certain general fund transfers. In addition, it also reflects the interfund borrowing repayments from OASI to HI—$1,824 million in 1985, and $10,613 million in 1986.

Source: Congressional Budget Office and Office of the Actuary, SSA.

Sensitivity of HI trust funds balances to different outlay growth assumptions

Table 11 presents alternative projections of Hospital Insurance (HI) trust fund outlay growth through 1991. All of these projections assume the economic projections underlying the baseline path. The alternatives all are arranged in the table from least to most growth. Hospital outlays are projected to grow by 1 or 2 percent less and 1 or 2 percent more than the baseline in each year. These changes could be due to variations in hospital rate increases, admission patterns, intensity or change in case mix, or technology changes. The percentage refers to entire hospital outlays and not just those outlays covered by the prospective payment system.

Income to the trust fund is the same (except for interest which varies by size of trust fund balance) in each projection. Under the least growth alternative, expenditures are $73.9 billion in fiscal year 1991 compared to $80.5 billion in the baseline projection. Trust fund balances are $20 billion greater in this alternative.

Conversely, under the alternative with the most growth, expenditures are $7.1 billion higher and trust fund balances $21 billion smaller in 1991 as compared to the baseline projection.

TABLE 11.—ALTERNATIVE PROJECTIONS OF HOSPITAL INSURANCE OUTLAY GROWTH AND YEAR-END BALANCES [1]

[By fiscal year, in billions of dollars]

	1986	1987	1988	1989	1990	1991
2 percent less hospital outlays:						
Outlays	49.0	52.3	56.9	62.0	67.7	73.9
End-of-year balance	39.6	49.6	60.4	71.0	81.6	91.9
1 percent less hospital outlays:						
Outlays	49.0	52.8	57.9	63.6	70.1	77.1
End-of-year balance	39.6	49.1	58.9	67.7	75.6	82.3
Baseline:						
Outlays	49.0	53.2	58.9	65.3	72.5	80.5
End-of-year balance	39.6	48.7	57.4	64.4	69.6	72.3
1 percent more hospital outlays:						
Outlays	49.0	53.7	59.9	66.9	75.0	84.0
End-of-year balance	39.6	48.2	55.8	61.0	63.4	62.2
2 percent more hospital outlays:						
Outlays	49.0	54.1	60.9	68.6	77.5	87.6
End-of-year balance	39.6	47.7	54.3	57.6	57.1	51.7

[1] Projections assume economic assumptions underlying CBO's baseline path.

Source: Congressional Budget Office.

Projections to 1990

In September 1985, the Congressional Budget Office (CBO) presented testimony to the Task Force on Health of the Committee on the Budget in which they projected the outlook for the hospital insurance trust fund. In September, CBO assumed the following:

"The PPS rates will rise each year by the increase in the cost of the market basket plus one-quarter of 1 percent. Moreover, if some of the proposals for modifying PPS (as reported in H.R. 3128, the Consolidated Omnibus Budget Reconciliation Act) are enacted, the HI trust fund's financial soundness would be reinforced.

"It should be emphasized, however, that the burden that Medicare places on the economy is better measured by the level of outlays than by the status of the trust fund. Between 1985 and 1990, hospital insurance outlays are expected to grow by over 10 percent a year, a far greater rate than the assumed 7.3 percent annual rate of growth of our gross national product. Consequently, despite recent changes in the reimbursement system and the improvement in trust fund balances, hospital insurance will continue to impose an ever-growing burden on the economy."

Projections beyond 1990

Longer-term projections of trust fund balances depend on many different assumptions. Factors such as changes in PPS rates, number of beneficiaries, admission rates, and others will affect trust fund outlays. As CBO states: "Since Medicare's rates are under the Secretary's discretion or can be legislated, they are extremely difficult to forecast." For example, if the PPS rate were limited to 1 percent in FY 1986, according to CBO, the 1991 trust fund balance would change from 53 percent of annual outlays to 68 percent, thereby reversing the modest decline shown above for the 1986–1990 period. In addition, CBO cities other factors which make future predictions difficult. "The extent to which the complexity of diagnosis has grown and might continue to grow would increase outlays, by how much is difficult to estimate. Finally, forecasting changes in medical technology and their implications for spending is very difficult."

In the absence of CBO projections to 1995, committee staff extrapolated the lastest CBO projections from 1991 to 2000. This extrapolation was done by assuming that the rate of growth in outlays between 1990 and 1991 would remain the same over the next 10 years. A similar assumption was made with respect to income. These results are shown in table 12. To emphasize the large degree of error involved in making projections to 1995, the trust fund balances are shown in a $20 billion range.

The projections in table 12 indicate that insolvency of the HI trust fund is postponed until the middle to latter portion of the 1990's. It should be emphasized that even assuming a 1 percent lower or higher hospital outlay growth path relative to the baseline does not change appreciably the estimated date when the HI trust fund is exhausted. Under these committee staff extrapolations of CBO projections, the HI fund is exhausted in 1997 under the baseline path; 1995 under a 1 percent higher outlay growth rate than assumed in the baseline path; and in 2000 under a 1 percent lower growth rate in outlays relative to the baseline.

These estimates are almost identical to those contained in the 1985 Annual Report of the Board of Trustees of the Federal Hospital Insurance Trust Fund. Under alternative II–A, the trust fund balances decline steadily until they are exhausted in 2000. Under alternative II–B (which roughly corresponds to CBO baseline); the trust fund balances are exhausted in 1998.

TABLE 12.—PROJECTIONS OF HI OUTLAY AND TRUST FUND BALANCES TO 2000 BASED UPON CBO's, JANUARY 1986 PROJECTIONS

Fiscal year	Baseline path		Baseline path—Assuming 1 percent less increase		Baseline path—Assuming 1 percent more increase	
	Outlays	Year-end balance	Outlays	Year-end balance	Outlays	Year-end balance
January 1986 estimates:						
1990	73	70	70	76	75	63
1991	81	72	77	82	84	62
1995 [1]	122	35 to 55	113	75 to 95	132	0 to 20

BEST COPY AVAILABLE

TABLE 12.—PROJECTIONS OF HI OUTLAY AND TRUST FUND BALANCES TO 2000 BASED UPON CBO's, JANUARY 1986 PROJECTIONS—Continued

Fiscal year	Baseline path		Baseline path—Assuming 1 percent less increase		Baseline path—Assuming 1 percent more increase	
	Outlays	Year-end balance	Outlays	Year-end balance	Outlays	Year-end balance
Year trust funds exhausted............	1997		2000		1995	

[1] Estimates made by committee staff by extrapolating the same growth rate between 1990 and 1991 assumed by CBO in this most recent projection throughout the period from 1992 to 2000 for both income and outlays.

Estimates of the financial status of the trust fund are very sensitive to the projected growth rate of outlays. Unfortunately, recent reimbursement patterns to hospitals have heightened our uncertainty about such projections. For projection purposes, the problem is to separate out temporary adjustment factors from long-term improvements in the hospital cost picture. Because the prospective payment system is new, hospitals can be expected to go through some temporary adjustments that involve learning the mechanics of the system, understanding where the rate structure is most binding, and so forth. These factors, which might initially hold down HI outlays, should lessen over time and would therefore not affect the long-run performance of the system.

On the other hand, many changes have been occuring in the hospital industry that might have more enduring effects on cost growth. For example, in partial response to consumer, business, and government concerns over rising health care costs, many new health organizations are being formed. Health Maintenance Organizations (HMOs), Preferred Provider Organizations (PPOs), and state and local government cost control plans are growing in size and importance. These groups could affect both hospital admissions rates and hospital costs. Simultaneously, during 1984 there has been an unexpected slip in the rate of increase of hospital admissions for those age 65 and older. This decline in the rate of growth of admissions is the opposite of what many observers thought would result from DRG pricing—namely, that hospitals would increase admissions to compensate for lower per-admission reimbursements. All of these factors make forecasting the growth in health-care costs over the next decade a very uncertain task.

DRG rate increases

Rate increases for 1986 could change with the passage of the reconciliation bill, but although the possible range of DRG rates is very narrow. In 1987 and thereafter, no limits are specified by law, and the Secretary of Health and Human Services must specify the annual changes. The Secretary thus has discretionary power over future increases, although payments will almost certainly reflect movements in aggregate hospital costs.

Effect of DRGs and other factors on hospital use

Perhaps the greatest uncertainty, however, revolves around how hospitals react to the DRG system and other pressures in terms of hospital utilization, admitting practices, and pattern of admissions.

For example, hospitals could switch certain diagnoses from out-patient to in-patient care, or vice versa. Hospitals could also continue a movement toward a more complex caseload mix, a trend that has already been observed. With the system not yet fully in place, however, it is still too early to determine the effect of DRGs on hospital behavior.

RECENT LEGISLATIVE CHANGES

Summarized in tables 13-16 are the legislative changes made in Medicare in 1981, 1982, 1983, and 1984. The changes were incorporated in the Omnibus Budget Reconciliation Act of 1981 (Public Law 97-35), the Tax Equity and Fiscal Responsibility Act of 1982 (Public Law 97-248), the Social Security Amendments of 1983 (Public Law 98-21), Deficit Reduction Act of 1984 (Public Law 98-369) and Public Law 98-617.

Included in the tables are the most recent Congressional Budget Office estimates of the impact of the provisions. The annual savings have not been totaled because of the differences in underlying economic assumptions in each year's estimates. In addition, some of the provisions have not yet been implemented.

Overall, CBO estimated in January 1985, that HI outlays have been reduced by $5.7 billion, $7.3 billion and $9.1 billion for fiscal years 1986 to 1988 respectively. This is a reduction of 11.5 for 1988 compared to pre-1981 policies. Part B outlays are reduced by $2.9 billion, $3.2 and $3.4 billion for fiscal years 1986 to 1988 respectively. For 1988, this is a reduction of 7.2 percent compared to pre-1981 policies.

The major legislative changes enacted in 1984 are described in the section following table 16.

TABLE 13.—CONGRESSIONAL BUDGET OFFICE [1] REVISED ESTIMATES FOR LEGISLATIVE CHANGES MADE IN CALENDAR YEAR 1981 (OMNIBUS BUDGET RECONCILIATION ACT OF 1981)

[In millions of dollars]

January 1982 estimates	Fiscal year		
	1982	1983	1984
Provisions affecting hospital insurance:			
Making part A deductible and coinsurance more current	−185	−305	−360
Less frequent SNF surveys [2]	−4	−4	−4
Repeal of temporary delay in periodic interim payments	−692	0	0
Making part A coinsurance current with the year in which services are furnished	−5	−10	−10
Set section 223 limits on reimbursements to hospitals at 108 percent	−75	−105	−125
Limit nursing differential to 5 percent	−95	−105	−130
Elimination of occupancy test for hospital long-term care	−70	−80	−90
Set section 223 limits on reimbursement to home health agencies at 45th percentile	−12	−23	−27
PSRO modifications	−5	−8	−5

TABLE 13.—CONGRESSIONAL BUDGET OFFICE [1] REVISED ESTIMATES FOR LEGISLATIVE CHANGES MADE IN CALENDAR YEAR 1981 (OMNIBUS BUDGET RECONCILIATION ACT OF 1981)—Continued

[In millions of dollars]

January 1982 estimates	Fiscal year		
	1982	1983	1984
Payments to promote closing and conversion of underutilized facilities [2]	−2	−7	−19
Elimination of need for occupational therapy as a basis for entitlement to home health services	−23	−27	−31
Eliminate reimbursement for free-standing alcohol detoxification facilities	([3])	([3])	([3])
Total—Hospital insurance	−1,168	−674	−801
Provisions affecting supplementary medical insurance:			
Increase in part B deductible and elimination of carryover from previous year	−175	−265	−295
Civil money penalties	−7	−7	−7
Elimination of unlimited open enrollment	−9	−10	−11
Limitation on reasonable charge for outpatient services	−15	−23	−27
Incentive reimbursement rate for renal dialysis services [4]	−105	−130	−155
Medicare payments secondary in cases of end-stage renal disease (revenue increase)	−95	−165	−180
Total—Supplementary medical insurance	−406	−600	−675
Total HI and SMI	−1,574	−1,274	−1,476

---

[1] This table reflects estimates from the Congressional Budget Office which show the impact of the legislative changes enacted during 1981. The numbers are not extremely sensitive to economic conditions. Thus any changes to the numbers from earlier estimates represent different assumptions.

[2] As of January 1, 1985, the provision had not been implemented.

[3] Negligible.

[4] CBO and Administration estimate that was used during the 1981 reconciliation process.

Note.—Minus (−) indicates an expenditure reduction or revenue increase, plus (+) indicates an expenditure increase or revenue decrease.

TABLE 14.—CONGRESSIONAL BUDGET OFFICE [1] REVISED OUTLAY ESTIMATES FOR LEGISLATIVE CHANGES MADE IN CALENDAR YEAR 1982 (TAX EQUITY AND FISCAL RESPONSIBILITY ACT OF 1982)

[In millions of dollars]

January 1983 estimates	Fiscal year				
	1983	1984	1985	1986	1987
Medicare secondary for older workers	−88	−265	−451	−680	−780
80 percent radiologist/pathologist (medicaid cost of $90 million)	−150	−210	−245	−280	−315
Elimination of nursing differential	−95	−110	−125	−145	−165
Hospital-based physicians	−6	−40	−75	−110	−125
Part B premium as a constant percentage of costs (medicaid cost of $155 million)	−35	−240	−550	−600	−650
Hospital reimbursement changes [1] (medicaid savings of $460 million)	−895	−2,380	−4,610	−3,060	−1,740
Elimination of private room subsidy	−35	−75	−80	−85	−90
Single reimbursement limit for skilled nursing facilities and home health agencies	−20	−53	−62	−69	−77
Elimination of duplicate payments for outpatient services	−75	−135	−175	−210	−255
Audit and medical claims review	−85	−215	−215	−130	0
Temporary delay in periodic interim payments	−750	−100	870	0	0
Reimbursement of assistants at surgery	−24	−63	−113	−170	−195
Prohibition of payments for ineffective drugs	0	0	0	0	0
Medicare payments to HMO's	0	0	0	0	0
Technical corrections	0	0	0	0	0
Hospice care	1	1	−16	−40	0
Coverage of extended care services	0	0	0	0	0
Percentage arrangements (not for hospital-based physicians)	0	−17	−20	−23	−26
Prohibit payment for Hill-Burton care	−15	−17	−20	−23	−26
Prohibiting payment for antiunionization activities	0	0	0	0	0
Lesser of cost or charges	0	0	0	0	0
Extend medicare proficiency exam	0	0	0	0	0
Access to books and records	0	0	0	0	0
Private sector utilization review	0	0	0	0	0
Part B enrollment	(2)	(2)	(2)	(2)	(2)
Subtitle C—Utilization and quality control peer review	0	−15	−20	−20	−25
HI tax for Federal employees (outlay savings)	−116	−160	−174	−195	−207
Total medicare provisions	−2,388	−4,094	−6,081	−5,840	−4,676

---

[1] Assumes the "target" reimbursement system is not extended after 3 years.

[2] Negligible cost.

TABLE 15.—CONGRESSIONAL BUDGET OFFICE OUTLAY AND INCOME ESTIMATES FOR LEGISLATIVE CHANGES MADE IN CALENDAR YEAR 1983 (THE SOCIAL SECURITY AMENDMENTS OF 1983)

[In millions of dollars]

	1983	1984	1985	1986	1987	1988
Supplementary medical insurance:						
Medicare premium delay:						
SMI	113	63	−90	−202	−206	−211
HI	1	(1)	(1)	(1)	(1)	(1)
Hospital insurance outlays:						
Pass through mandatory FICA	0	150	224	150	38	7
Prospective payment system	0	0	0	(2)	(2)	(2)
Delay SNF reimbursement limit	20	22	5	3	3	4
Lower return on equity capital	−10	−90	−100	−100	−40	0
DRG Commission	0	[3] 1	[3] 2.4	[3] 3	[3] 3	[3] 3
Total HI outlay changes	10	83	132	56	4	14
Hospital insurance income:						
SECA tax increase	0	377	1,262	1,434	1,605	1,670
Cover nonprofit organizations	0	216	326	397	480	605
State speedup	0	140	10	10	10	10
Military transfer credits	3,290	−70	−70	−60	−60	−60
Total HI income changes	3,290	663	1,528	1,781	2,035	2,225
Total outlay and income infusions to HI Trust Fund	3,280	580	1,396	1,725	2,031	2,211
Estimated HI Interest Income	44	386	499	634	765	902
Total annual increase in HI Trust Fund	3,324	966	1,895	2,359	2,796	3,113

---

[1] Less than $0.5 million.

[2] The budgetary impact cannot be estimated because the law allows the Secretary of HHS, as advised by a panel of experts, nearly unlimited discretion in setting payment rates for inpatient hospital services. Those rates could be set such that aggregate medicare outlays would increase or decrease.

[3] This provision is subject to appropriation. For fiscal year 1984, the appropriation was $1.5 million.

Source: CBO estimates based on January 1983 economic assumptions.

BEST COPY AVAILABLE

TABLE 16.—CONGRESSIONAL BUDGET OFFICE OUTLAY IMPACT FOR LEGISLATIVE CHANGES MADE IN CALENDAR YEAR 1984

[In millions of dollars]

June 1984 estimates	Fiscal year—			
	1984	1985	1986	1987
Delay implementation of single limit for SNF's	20	30	35	40
Hospital rate of increase	0	0	−180	−250
Establish fee schedule for clinical lab services	−40	−240	−300	−380
(Medicaid)	(−10)	(−49)	(−57)	(−67)
Hepatitis B vaccine	3	−1	−2	−2
Physician fee freeze	−40	−720	−840	−950
(Medicaid)	(0)	(−14)	(−16)	(−18)
Limitation on certain foot services	−3	−11	−11	−12
Part B premium increase	0	0	−384	−884
Premium decrease due to other savings	0	187	246	288
(Medicaid)	(0)	(−14)	(10)	(45)
Revaluation of assets	−2	−25	−45	−70
Competitive contracting	0	−15	−25	−33
Lesser of costs and charges	0	−45	−55	−65
Coinsurance for DME	−5	−20	−25	−25
Working aged	0	−260	−380	−415
Payment rate for routine home care under hospice program (Public Law 98–617)	0	1	3	0
Medicare total	−67	−1,306	−1,825	−2,162
(Medicaid total)	(−10)	(−77)	(−63)	(−40)
Premium totals	0	187	−138	−596
Total Medicare provisions	−77	−1,196	−2,026	−2,798

Note: Savings are from legislation made in the Deficit Reduction Act of 1984, Public Law 98–369 except where noted.

1985 LEGISLATIVE CHANGES

Congress enacted several Emergency Extension Acts which affected hospital and physician reimbursement under medicare. Public Law 99-107 amended current law to provide that hospital payment rates that were in effect on September 30, 1985, would remain in effect for a further 45-day period, through November 14, 1985. Public Law 99-155, Public Law 99-181 and Public Law 99-189 extended this requirement through December 19, 1985, and Public Law 99-201 extended the requirement through March 14, 1986.

The above Public Laws also extended the payment terms established for physicians in the Deficit Reduction Act of 1984. Physicians are bound during the extension period by the decisions they made regarding participation for the year beginning October 1, 1985, and are subject to the corresponding payment rules.

1984 LEGISLATIVE CHANGES

The following describes the major legislative changes enacted into law during 1984. The budgetary impacts are shown in table 16.

1. Removing costs of nurse anesthetists from DRG-based payments.—Medicare's payments to hospitals under part A are based on the diagnosis of the patient and are intended to cover all the services that hospitals customarily furnish in caring for patients with a specified diagnosis. In regulations, the Department of Health and Human Services provided a temporary provision to provide for a transition with respect to payment for CRNA's billed under part B.

Public Law 98-369 removes from the definition of operating cost of inpatient hospital services, for purposes of prospective payment, cost related to services performed by CRNA's. Such services will be reimbursed on a cost basis rather than under the prospective payment system for cost reporting periods beginning on or after October 1, 1984, and before October 1, 1987.

2. Prospective payment wage index.—Medicare payments to hospitals under the prospective payment system must be adjusted to reflect the hospital wage level in a hospital's geographic area relative to the national average hospital wage index.

Public Law 98-369 requires the Secretary, in consultation with the Secretary of Labor, to conduct a study to develop an appropriate index to adjust the prospective payment amounts to reflect area differences in average hospital wage levels, taking into account wage differences of full-time and part-time workers. The Secretary is required to report the results of the study to Congress within 30 days of enactment.

The Secretary is required to adjust hospital payment amounts for cost reporting periods beginning on or after October 1, 1983, to reflect any changes in the wage index as a result of the study, but adjustments in the payment will not be made for the first such year until the succeeding cost reporting period.

The Secretary is directed to conduct a study, and include in the final report, proposed criteria by which an adjustment could be made in a hospital's wage index if such index did not accurately reflect the hospital wage levels in the levels in the labor market area serving the hospital.

3. Skilled nursing facility reimbursement.—TEFRA required the Secretary to establish a single payment limit for both freestanding and hospital-based skilled nursing facilities (SNF's), effective October 1, 1982. Prior to that time, separate limits were established for the two types of facilities.

In the Social Security Amendments of 1983, the effective date of the single-limit requirement was postponed to October 1, 1983. In addition, the Congress required the Secretary to report by December 31, 1983, on the effect of the single-rate provision on hospital-based SNF's. Further, the Secretary was required to report by the end of 1983 on the impact of hospital prospective payment on SNF's.

Public Law 98-369 requires that, for cost reporting periods beginning on or after October 1, 1982, and prior to July 1, 1984, hospital-based and freestanding SNF's are to be paid on the same basis used to calculate reimbursement limits that had been in effect prior to the passage of TEFRA.

For cost reporting periods beginning on or after July 1, 1984, separate limits will continue to be established for freestanding facilities in urban and rural areas at 112 percent of mean operating costs of urban and rural freestanding facilities, respectively. Limits for urban or rural hospital based facilities will be set at the appropriate freestanding facility limit plus 50 percent of the difference between freestanding facility limits, and 112 percent of mean operating costs for hospital-based facilities.

The Secretary is required to submit to Congress, by August 1, 1984, the results of the study required by TEFRA. In addition, the Secretary is required to report by December 1, 1984, on the range of options available for prospective payment of SNF's.

4. Limitation on increase in hospital costs per case.—The Social Security Amendments of 1983 (Public Law 98-21) provided for the establishment of a prospective payment system for certain hospitals to be phased in over a 3-year period. During the transitional period, a portion of a hospital's payments will be based on the new Federal prospective payment rates and a portion on each hospital's own cost base. For fiscal years 1984 and 1985 payment amounts from the previous fiscal years were to be increased by market basket (MB) plus 1 percentage point. For fiscal years beginning on or after October 1, 1986, the rate of increase is left to the discretion of the Secretary.

Hospitals and units exempted from the prospective payment system are paid on the basis of historical costs subject to the existing rate of increase limits, which provided for an annual rate of increase of MB plus 1 percentage point. For accounting years beginning on or after October 1, 1986, the rate of increase is left to the discretion of the Secretary.

Public Law 98-369 will limit for the two hospital cost reporting periods beginning on or after October 1, 1984, the rate of increase applicable to hospitals. In fiscal year 1985, the rate of increase will be market basket plus one-quarter of 1 percentage point. However, budget neutrality continues to apply in fiscal year 1985. In fiscal year 1986, the Secretary, taking into account the recommendations of the Prospective Payment Assessment Commission, will have authority to establish a rate of increase, as under current law, but not more than market basket plus one-quarter of 1 percentage point.

The law also provides that the rate of increase for exempted hospitals and exempted hospital units will not exceed market basket plus one-quarter of 1 percentage point in the first year or the second year.

5. Classification of certain rural hospitals.—Public Law 98-21 provided for the establishment of a prospective payment system which is to be phased in over a 3-year transition period. A decreasing portion of the total prospective payment will be based on the hospital's specific rate and an increasing portion on the Federal rate during the transition. Different Federal rates are calculated for hospitals located in rural areas and hospitals located in urban areas.

Urban areas are metropolitan statistical areas (MSA's) or New England county metropolitan areas as well as five specified counties in New England. All other areas are rural. The determination as to whether or not an area is urban or rural is made by the Office of Management and Budget.

Public Law 98-369 provides that hospitals located in counties redesignated as rural since enactment of the prospective payment system will be allowed a 2-year transition to the rural rates. In the first year, the hospital is paid the rural rates plus two-thirds of the difference between its rural and urban rate. In the second year, it is paid the rural rate plus one-third the difference between the rural and the urban rates. The provision is effective with respect to cost reporting periods beginning on or after October 1, 1983.

The law specified that a hospital located in an MSA will be deemed to be in the region in which the largest number of the hospitals are located or, at the option of the Secretary, the region which accounts for the majority of the Medicare discharges. The provision is effective with respect to cost reporting periods beginning on or after October 1, 1983.

The law permits a rural hospital to appeal to the Secretary to be classified as a rural referral center, based on the similarity of its operating characteristics with those of a typical urban hospital in the same region. The provision is effective for cost reporting periods beginning on or after October 1, 1984.

6. Payment for outpatient diagnostic laboratory tests.—Under prior law, diagnostic laboratory services for ambulatory patients were reimbursed by Medicare (subject to the part B deductible and coinsurance) on the basis of reasonable charges when furnished by an independent laboratory or physician. Payment for such services to hospital outpatients was on the basis of the lower of charges or reasonable cost. Certain limitations were applied on the amount Medicare and Medicaid paid a physician for laboratory services when the services were performed by an independent laboratory.

Public Law 98-369 requires the establishment of a fee schedule for all laboratory services except those provided to hospital inpatients.

A fee schedule for independent clinical labs (including hospital labs furnishing services to persons who are not patients of the hospital) and for lab tests performed in a physician's office will be established at 60 percent of the prevailing charge levels for the fee screen year beginning July 1, 1984. After three years, payment is to be made on the basis of a national fee schedule. (The fee schedule will not apply to clinical lab tests furnished by ESRD facilities and included in the ESRD composite rate.)

For hospital-based labs serving hosptial outpatients, a fee schedule based on a carrier or regional area will be established at 62 percent of the prevailing charge levels for the fee screen year beginning July 1, 1984. After the three year period, reimbursement for such hospital labs reverts to cost reimbursement unless the Congress acts to include them in a national fee schedule.

The law permits the Secretary to provide for adjustments for wage variations.

The Secretary is required to adjust the fee schedules annually to reflect changes in the Consumer Price Index for all Urban Consumers (U.S. city average).

The law permits the Secretary to make adjustments or exceptions to the fee schedule to assure adequate reimbursement for: (a) emergency lab tests needed for the provision of bona fide emergency services; (b) certain low-volume, high-cost tests where highly sophisticated equipment or extremely skilled personnel are necessary to assure quality; and (c) technological changes.

In addition, the law also makes the following changes:

(a) independent labs are required to accept Medicare assignment;

(b) services conducted by hospital labs for non-hospital patients have to be accepted on an assignment basis; and

(c) Medicare will waive the deductible and coinsurance requirements and pay 100 percent of the fee screen amount or charge, whichever is lower, for those cases which are accepted on assignment.

Physicians are permitted to bill for clinical lab services only if the physician (or another physician with whom the physician shares his practice) personally performed or supervised the performance of the test. As under current law, the physician could choose to accept or not accept assignment on a case by case basis. When a physician accepts assignment, Medicare reimbursement will be 100 percent of the fee screen amount, or charges, whichever is lower.

The law provides that Federal matching funds will not be available to the extent that a State paid more for lab tests than is paid for such tests under the Medicare fee schedule.

7. Coverage of administration of hepatitis B vaccine.—Prior law prohibited Medicare coverage of immunizations and vaccines except in the case of pneumococcal vaccine which Congress specifically covered in 1980.

Public Law 98-369 provides coverage of hepatitis B vaccine for Medicare beneficiaries at high and intermediate risk of contracting hepatitis B. It authorizes the Secretary to provide payments that reasonably reflect the cost of efficiently providing and administering hepatitis B vaccine.

8. Payment for services of teaching physicians.—There are certain conditions governing how Medicare should reimburse for patient care services performed by physicians in a teaching setting, including a formula for calculating the physician's customary charge.

Public Law 98-369 revises the formula for calculating teaching physicians' customary charges. As a result, customary charges cannot be less than 85 percent of the Medicare prevailing charges paid for services in the same locality as the teaching setting.

As of October 1, 1984, if all the "teaching physician" at a particular teaching hospital agree to take Medicare assignment for all Medicare patients they serve in that hospital then they can receive 90 percent of the Medicare prevailing charges in the same locality.

The Secretary is directed, when calculating a hospital's indirect teaching cost, to take into account not only the interns and residents it employs but also any other house staff members who participate in the hospital's teaching program but who are employed by another organization.

9. Limitation on physician fee prevailing and customary charge levels: participating physician incentives.—Under current law, Medicare pays for physician services on the basis of Medicare-determined "reasonable charges". Reasonable charges are the lesser of: (1) a physician's billed charge; (2) the customary charge made by an individual physician for a specific service; or (3) the prevailing level of charges made by all physicians for similar services in a geographic area. The customary and prevailing charges were updated annually (on July 1) to reflect changes in physicians' charging practices. Increases in the prevailing charge levels are limited by an economical index, which reflects changes in the physicians' practice costs and changes in general earning levels.

Public Law 98-369 provides for a 15-month physician reimbursement freeze under the Medicare program, it protects Medicare beneficiaries from additional "extra-billing" and establishes a participating physician arrangement under the Medicare program.

For a more detailed explanation refer to Appendix D.

10. Pacemaker review and reform.—The costs of inpatient hospital services with respect to the implantation of pacemakers, including the costs of the device, are subject to the new diagnosis-related group (DRG) prospective payment system. However, the costs of the physicians' services for implantation and post-implantation monitoring of the devices are reimbursed under part B. Post-implantation monitoring includes transtelephonic monitoring for which frequency guidelines have been established by the Secretary.

Public Law 98-369 requires the Secretary to revise the current guidelines on the frequency of transtelephonic monitoring.

The law provides that, if the Secretary fails to revise the guidelines by October 1, 1984, a specified frequency schedule would be in effect with respect to single-chamber cardiac pacemakers powered by lithium batteries.

The law provides for a registry of pacemaker devices and leads; authorizes the Secretary of HHS to require that removed devices be returned to the manufacturer; and permits the Secretary to require testing of such devices.

11. Limitation on certain foot care services.—Routine foot care is not covered by Medicare. However, Medicare does allow reimbursement to physicians for debridement of mycotic toenails (i.e., the care of toenails with a funal infection).

Public Law 98-369 requires the Secretary to deny coverage under the Medicare program for debridement of mycotic toenails if performed more frequently than once every 60 days. Exceptions can be authorized if medical necessity is documented by the billing physician.

12. Permitting limited provider representation on Peer Review Organizations.—The Secretary was prohibited from contracting with an entity which is, or is affiliated with a health care facility. The Secretary, by regulations, specified that the governing body of a Peer Review Organization was not permitted to have a member who is a member, officer, or managing employee of a health care facility.

Public Law 98-369 provides for limited representation of providers on PRO's. It would allow up to 20 percent of the members of a PRO governing body to be affiliated with providers.

It permits entities whose board members include a representative of a self-insured employer to qualify as a PRO. In addition, an organization which has no more than one member affiliated with a health maintenance organization will not be classified as a payer organization and therefore be permitted to qualify as a PRO.

13. Including podiatrists in definition of "physician" for outpatient physical therapy services and including podiatrist and dentists in the definition of "physician" for outpatient ambulatory surgery.—Under prior law, outpatient physical therapy services are covered only if the patient is under the care of a physician.

Public Law 98-369 defines a podiatrist (when acting within the scope of his practice) as a physician for purposes of the outpatient physical therapy requirement.

The law also includes dentists and podiatrists within the definition of physician for purposes of outpatient ambulatory surgery in a physician's office.

14. Establishment by physical therapist of plans for physical therapy.—Under prior law, Medicare payment for outpatient physical therapy services furnished to a beneficiary were made only if a plan for furnishing such services was established by a physician.

Public Law 98-369 allows either the physical therapist or the physician to establish the plan of care. The physician would still be required to periodically review all plans of care. The law is effective with respect to plans of care established on or after the date of enactment.

15. Medicare recovery against certain third parties.—Under current law, Medicare may limit benefit payments for services for which other third party insurance programs (e.g. worker's compensation, auto or liability insurance, and employer health plans) may ultimately be liable. However, the law did not make it explicit that the Secretary had the right of subrogation, i.e., the right to become a party to claims against other liable parties or to recover directly from such parties.

Public Law 98-369 establishes the statutory right of Medicare to: (1) bring an action directly against certain third parties, if the beneficiary does not do so; (2) bring an action against any party who has already been paid; or (3) join or intervene in an action against a third party.

16. Exclusion of certain entities owned or controlled by individuals convicted of Medicare or Medicaid related crimes.—Under present law, the Secretary may bar from participation in Medicare (and may direct State agencies to bar from Medicaid) a person convicted of program-related criminal offenses. The Secretary may refuse either to enter into or renew a provider agreement with an entity in which ownership or control is held by a person who has been so convicted.

Public Law 98-369 extends the Secretary's authority by authorizing the Secretary to terminate agreements with any entity in which ownership or controlling interest is held by a person convicted of a program-related criminal offense, or an entity in which an officer, director, agent or managing employee was convicted of such a criminal offense.

The law requires the Secretary to notify State Medicaid agencies and authorizes the Secretary to require such agencies to bar the entity from participation in the program. It also requires the Secretary to notify the appropriate State licensing or certification agency and request that appropriate investigations be made and that the State agency keep the Secretary and the Inspector General informed of any action taken.

17. Health maintenance organizations and competitive medical plans.—Under current law, health maintenance organizations (HMO's) are required to have an annual open enrollment period of at least 30 days during which time they must accept Medicare beneficiaries up to the limits of their capacity. If there is more than one HMO in an area, there was no requirement that the open enrollment periods be coordinated.

Public Law 98-369 requires the Secretary (after consultation with such organizations) to designate a single 30-day period each year in which all of the HMO's in an area participating in Medicare must have an open enrollment period. It permits HMO's to conduct open enrollment at other times during the year.

The law expands the types of providers to whom Medicare can make payments directly for HMO services to include hospitals and skilled nursing facilities.

In addition, the law permits an HMO to establish a benefits stabilization fund for a limited period of time.

18. Deadline for report on including payment for physicians' services to hospital inpatients in DRG payment amount.—The Secretary is required to report to Congress on the advisability and feasibility of making payments for physician services to hospital inpatients on a diagnosis-related group system and to make legislative recommendations. The report was to be a part of the report made to Congress during 1985. Public Law 98-369 requires the Secretary to report to Congress not later than July 1, 1985.

19. Part B premium.—Current law requires the Secretary to calculate and announce each September the amount of the monthly premium that will be charged in the following calendar year for people enrolled in the supplementary medical insurance (part B) portion of the Medicare program. A temporary provision of law required that for 1984 and 1985 the premium amount be calculated so as to produce premium income equal to 25 percent of program costs for enrollees aged 65 and over.

Beginning with 1986, the premium calculation would have reverted to an earlier method under which the premium amount is the lower of: (1) an amount sufficient to cover one-half of program costs for the aged; or (2) the current premium amount increased by the percentage by which cash benefits were most recently increased under the cost-of-living adjustment (COLA) provisions of the Social Security program.

Public Law 98-369 extends for 2 calendar years (1986 and 1987) the existing temporary provision which fixes the proportion of the part B Medicare costs financed by enrollees at 25 percent of program costs. Should no Social Security cost-of-living adjustment take place, the monthly premium will not be increased for that year.

In the case of an individual who has his or her part B premium deducted from his or her Social Security check, if the cost-of-living adjustment is less than the amount of the increase in the premium, the premium increase will be reduced so as to avoid a reduction in the individual's Social Security check. In certain cases, the monthly premium will not increase for that individual for that year.

20. Revaluation of assets.—Medicare currently reimburses hospitals and other providers for their capital-related costs, including depreciation costs and interest. Investor-owned hospitals also receive a return on equity. When hospitals and other providers are sold, their assets were often revalued, thereby increasing reimbursement for these capital-related costs.

Public Law 98-369 limits the increase in capital-related cost reimbursement to a new owner that would result from the revaluation of hospital or skilled nursing facility assets. The capital-related cost of the new owner will be based on the lesser of: (a) historical cost (the acquisition cost to the owner of record on the date of enactment), or (b) the purchase price to the new owner.

The Secretary is required to continue recapture of depreciation as under current reimbursement policy.

The provision will not apply with respect to changes of ownership of assets pursuant to an enforceable agreement entered into before the date of enactment.

The law excludes from the calculation of allowable costs those expenses (such as lawyers' fees and feasibility studies) related to acquisitions and mergers. The law is effective for costs incurred on or after the date of enactment.

The law also limits State Medicaid reimbursement for the costs associated with the sale or transfer of a hospital or nursing home. States are required to assure the Secretary that the methodologies used to establish rates paid to hospitals, SNF's or ICF's can reasonably be expected not to increase those rates more than they will increase under Medicare policy as the result of a change of ownership of a facility. The law applies to medical assistance furnished on or after October 1, 1984, except in certain cases requiring State legislation.

21. Contracts for Medicare claims processing.—Medicare contracts with intermediaries and carriers to perform the day-to-day operational work of the program including reviewing claims and making program payments. Providers are permitted to nominate an intermediary.

The Secretary is permitted to assign or reassign any provider if the Secretary determines that such assignment or reassignment would result in more effective administration of the program.

Public Law 98-369 the Secretary is required to limit the number of home health regional intermediaries (by the end of 3 years) to no more than 10, in order to establish expertise in home health claims processing and to facilitate uniform interpretation of Medicare rules.

The law provides that in determining a carrier's or intermediary's necessary and proper cost of administration, the Secretary shall, with respect to each contract, take into account the amount that is reasonable and adequate to meet the costs which must be incurred by an efficiently and economically operated organization in carrying out the terms of its agreement. It requires that all carriers and intermediaries perform the full range of carrier or intermediary activities and be health insuring organizations.

The Secretary is permitted to enter into no more than two competitively bid contracts under part A, and two competitively bid contracts under part B of Medicare, for each of the next 2 years only. These competitive contracts can only be used to replace consistently poor performers (contractors falling into the lowest 20th percentile of all performers, as measured by published cost and performance criteria).

The law requires that standards for carriers and intermediaries be available for public comment prior to implementation but does not require that they have to go through the full rulemaking procedures.

22. Lesser of costs or charges.—Under prior law, Medicare pays providers the lesser of costs or charges (LCC). HCFA regulations allowed hospitals to calculate the amount of their costs and charges in the aggregate for inpatient and outpatient services.

Public Law 98-369 requires the Secretary to issue regulations to isolate the calculation of the lesser cost or charges for outpatient services from the calculation for inpatient services.

To protect hospitals serving substantial numbers of indigent patients, the Secretary is required to modify the current rule under which public providers determined to have nominal charges are exempted from the lesser of cost or charges provision.

The same rule will also apply to nonpublic providers that serve a substantial number of indigent patients.

23. Coverage of hemophilia clotting factor.—Generally, part B of Medicare excludes coverage for drugs and biologicals unless they are of the type that cannot be self-administered and are commonly furnished as "incident to physicians" services.

Public Law 98-369 provides Medicare coverage, subject to utilization controls deemed necessary by the Secretary, for blood clotting factors and the supplies necessary for the self-administration of the clotting factor.

24. Cost-sharing for durable medical equipment furnished as a home health benefit.—Medicare payment for durable medical equipment which is not provided as a covered inpatient service is based on 80 percent of reasonable charges (80 percent of reasonable costs in the case of a provider), with one prior exception. Payment was based on 100 percent of those costs when furnished as part of a covered home health service.

Public Law 98-369 requires 20 percent coinsurance on durable medical equipment provided by home health agencies. It also clarifies the definition of durable medical equipment and the coverage of such equipment when furnished by providers.

25. Modification of the working aged provision.—The Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA) changed the Medicare benefits for the working aged. TEFRA amended The Age Discrimination in Employment Act (ADEA) to provide that an employer must offer to an employee age 65 through 69 the same group health plan offered to employees under age 65. As of January 1, 1983, if the employee elects the employer plan, Medicare benefits become secondary to benefits under the employer group health plan for an employed individual between the ages of 65 and 69 (and for the spouse of such employed individual, if the spouse is age 65 through 69).

Public Law 98-369 provides that employers must also offer group coverage to an employee who has not reached age 65 in cases where the employee has a spouse age 65 through 69 under the same circumstances as coverage is offered to employees with a spouse under the age of 65. In the case where such employee elects the employer plan, Medicare coverage for his older spouse would be secondary.

26. Elimination of part B deductible for certain diagnostic laboratory tests.—Prior law authorized the Secretary to negotiate with a laboratory a payment rate that is considered the full charge for diagnostic tests. The payment, which is made directly to the laboratory, equals 100 percent of the negotiated rates and was subject to the annual part B deductible. The beneficiary is not liable for coinsurance payments.

Public Law 98-369 eliminates application of the annual part B deductible in the case of diagnostic tests performed in a laboratory which has entered a negotiated rate agreement with the Secretary.

The law also specifies that the current provision providing for negotiated agreements only applies to services not paid for under the new fee schedule (see Item 6).

27. Enrollment and premium penalty with respect to the working aged provision.—The Tax Equity and Fiscal Responsibility Act (TEFRA) required employers to offer their employees aged 65 to 69 the same health benefits plan offered to their younger workers. Medicare payments are secondary with respect to these older workers (and their spouses aged 65-69). (Public Law 98-369 extends the provision to include younger workers; see item 27.) Employees who elect enrollment in such employer-offered health benefit plans, and their spouses, may wish to delay enrollment in part B because part B coverage may be duplicative. However, persons who enroll late were subject to a penalty. The monthy part B premium is increased by 10 percent for each full 12 months that an individual delays enrollment in the program beyond his or her initial enrollment period.

Public Law 98-369 waives the part B enrollment penalty for workers and their spouses aged 65 through 69 who elect private coverage under the provision of TEFRA and would establish special enrollment periods for such workers. The waiver will apply for the period during which an individual continued to be covered under an employer's group health benefits plan.

The law provides that the penalty relief provision would be effective with respect to the first calendar month beginning at least 30 days after enactment.

The law also provides that the special enrollment provisions would be effective for months beginning more than 90 days after enactment.

28. Waivers for social health maintenance organizations.—The Secretary has general authority to conduct experiments and demonstrations. While the Department has provided start-up funding for social HMO project, waivers allowing the four demonstration sites to become operational had not been approved by the Office of Management and Budget.

Public Law 98-369 requires the Secretary to approve certain waivers for a project to demonstrate the concept of a social HMO at four sites within 30 days after submission of a waiver request or within 30 days of enactment in the case of waiver requests submitted prior to enactment.

The law requires submission to Congress of an interim report on the status of the projects within 45 days of enactment. A final report is due to Congress 42 months after enactment.

29. Services of a clinical psychologist provided to members of an HMO.—Under current law, services of physician assistants and nurse practitioners are recognized as "medical and other health services" if they are furnished pursuant to a risk-sharing arrangement with a health maintenance organization.

Public Law 98-369 provides that the services of clinical psychologists, when furnished pursuant to a risk-sharing arrangement with a health maintenance organization, are recognized as "medical and other health services."

The Secretary has the authority to specify the qualifications necessary to be identified as a clinical psychologist.

30. Payment rate for hospice home care under Medicare.—TEFRA provided reimbusement under Medicare for a new category of Medicare providers, hospice programs. TEFRA required that hospice programs be reimbursed an amount equal to the costs which are reasonable and related to the cost of providing hospice care (or based upon such other test of reasonableness as the Secretary may prescribe).

The Department of Health and Human Services established a prospective payment system for hospice care. Daily rates of $46.25 for routine home care, $358.67 for continuous home care, $55.33 for inpatient respite care, and $271.00 for general inpatient care were established subject to a cap of $6,500.

Public Law 98-617 establishes the routine home care payment rate at $53.17 per day for services furnished during the 12-month period beginning October 1, 1984.

In addition, the Secretary is required to review beginning October 1, 1985, and not less often than annually thereafter, and as appropriate, adjust the payment rate for routine home care and for other services included in hospice care based on the costs that are reasonable and related to the costs of furnishing such care and services.

REPORTS AND STUDIES

The following is a list of studies and reports required by law which are either past due or to be concluded in the next 3 years.

Topic	Due date
PAST DUE	
Secretary of HHS to submit a report, including legislative recommendations, to Congress on the feasibility of establishing a single coordinated process for the collection of overpayments established in coordinated audit under the Social Security Act. (section 914(b)(4), Public Law 96–499).	December 31, 1981.
Secretary of HHS to submit a report, including legislative recommendations, to Congress on actions taken (1) to coordinate the conduct of institutional audits and inspections which are required under the programs funded under titles V, XVIII or XIX of the Social Security Act, and (2) to coordinate such audits and inspections with those conducted by other cost payors. (section 914(d), Public Law 96–499).	December 31, 1981.
Secretary of HHS to report to Congress evaluating the effectiveness of various State approaches to the regulation of medicare supplemental policies. (section 507(a), Public Law 96–265).	January 1, 1982.
Secretary of HHS to report with legislative recommendations on demonstration project to determine (1) the extent to which the commencement of nutritional therapy in early renal failure can retard or arrest the progression of the disease and the administrative, financial, and other aspects of making such nutritional therapy generally available under medicare. (section 958(h), Public Law 96–499).	December 5, 1982.
Secretary of HHS to report with legislative recommendations on a study of the circumstances and conditions under which services furnished by registered dietitians should be covered as a home health benefit under medicare. (section 958(h), Public Law 96–499).	December 5, 1982.
Secretary of HHS to report with legislative recommendations on demonstration project to determine the administrative, financial, and other aspects of making the services of clinical social workers more generally available as part of the benefits received under medicare. (section 958(h), Public Law 96–499).	December 5, 1982.
Secretary of HHS to report with legislative recommendations on the circumstances and conditions under which services furnished with respect to respiratory therapy should be covered as a home health benefit under medicare. (section 958(h), Public Law 96–499).	December 5, 1982.
Secretary of HHS to report with legislative recommendations on the cost effects of alternative approaches to improving coverage under Medicare for the treatment of various types of foot conditions. (section 958(h), Public Law 96–499).	December 5, 1982.
Secretary of HHS to submit report and legislative recommendations to Congress on demonstration projects to determine the feasibility of creating a single coordinated appeal hearing to adjudicate cost items which are determined under common audits under the Act and which are disputed and appealed. (section 914(b)(3), Public Law 96–499).	December 31, 1982.
Secretary of HHS to conduct and promptly complete all studies and experiments required under present law which pertain to the use of, and reimbursement for, nutritional therapy; and that the Secretary transmit a full and complete report with respect to each study and experiment. (Public Law 97–35).	January 1, 1983.
Secretary of HHS shall report to Congress on the effectiveness of hospice demonstration projects in effect on July 15, 1982, pursuant to section 402(a) of SSA of 1967, including an evaluation of the cost-effectiveness of hospice care, the reasonableness of the 40 percent cap amount for hospice care as provided in section 1841(i) of the Act, proposed methodology for determining such cap amount, proposed standards for requiring and measuring the maintenance of effort for utilizing volunteers as required under section 1861(dd) of the Act, an evaluation of physician reimbursement for services furnished as part of hospice care, and any proposed legislative changes in the hospice care provision of medicare. (section 122(h)(2), Public Law 97–248).	September 30, 1983.
Secretary of HHS shall make recommendations to the Congress with respect to a method for including hospitals located outside of the 50 States and the District of Columbia under a prospective payment system. (section 603(a)(4), Public Law 98–21).	April 1, 1984.

Topic	Due date
Secretary of HHS is directed to conduct a study and report to Congress on further refinements which may be appropriate in the inpatient hospital prospective payment provisions of medicare, in order to address the problems of differences in payment amounts to specific hospitals. The study will include (but not limited to) the degree of variation in inpatient hospital costs per discharge within each DRG. The Secretary is directed to present alternative methods of computing the amount of such payments. The study will include a discussion of the relative merits of a method of payment under which a percentage of the payment amount could be determined on a regional basis. (section 2311(f), Public Law 98–369).	September 1, 1984.
Secretary of HHS is directed to submit a preliminary report to Congress on the status of the social HMO projects and waivers. (section 2355(d)(1), Public Law 98–369).	September 1, 1984.
Secretary of HHS shall study, develop and report to the Congress on the method and proposals for legislation by which capital-related costs, such as return on net equity associated with inpatient hospital services can be included within the prospective payment amounts computed under section 1886(d) of the Act. (section 603(a)(1), Public Law 98–21).	October 20, 1984.
Secretary of HHS shall report to the Congress with respect to (1) the effect which the implementation of sec. 102 of TEFRA would have on hospital based skilled nursing facilities and by community based skilled nursing facilities and (2) the impact on skilled nursing facilities of hospital prospective payment system and recommendations concerning payment of skilled nursing facilities, a range of options for prospective payment of SNF's taking into account case mix, and differences among SNF's. The report shall analyze the feasibility of permitting inclusion of payments to hospital-based facilities within the DRG payment system. (section 605(b), Public Law 98–21; section 2319(b), Public Law 98–369).	December 1, 1984.
Secretary of HHS is directed to review and report findings to the Congress on the urban/rural payment differential with respect to DRG's were a substantial part of the treatment involves non-labor costs. In addition, the Secretary is directed to study the advisability and feasibility of varying by DRG the portion of the labor and non-labor components of the Federal payment amount. (section 2311(e), Public Law 98–369).	January 1, 1985.
Secretary of HHS is directed to review and report to Congress on the appropriateness of the amounts recognized under part B of medicare or physicians' services associated with the implantation or replacement of pacemaker devices and pacemakers leads. The review will take into account the amounts recognized as reasonable with respect to such procedures and the time and difficulty of such procedures and the time and difficulty of such procedures at the time the amounts for such procedures were first established under such part. (section 2304(b)(1), Public Law 98–369).	March 1, 1985.
The Prospective Payment Assessment Commission is directed to review and report to Congress regarding the appropriateness of the payment amounts provided under section 1886(d) of such Act for inpatient hospital services associated with implantation or replacement of pacemaker devices and pacemaker leads. Such review will take into account the time, difficulty, and costs associated with such procedures at the current time in comparison with the time difficulty, and costs associated with such procedures and upon which the payment rates are based. (section 2304(b)(2), Public Law 98–369).	March 1, 1985.
Secretary of HHS shall submit a report and legislative recommendations to the Congress on an evaluation of the effectiveness of the program of transitional allowances to promote closing and conversion of underutilized hospital facilities, and include in the report an analysis as to how and whether implementation of the closure and conversion provision as modified could result in achieving reductions in the total cost of hospital inpatient services and medicare expenditures. (section 2101, Public Law 97–35; section 2353, Public Law 98–369).	March 31, 1985.
Secretary of HHS shall make legislative recommendations to the Congress with respect to an equitable method of reimbursing sole community hospitals which takes into account their unique vulnerability to substantial variations in occupancy. (section 603(a)(3)(A), Public Law 98–21).	April 1, 1985.

Topic	Due date
Secretary of HHS shall examine ways to coordinate an information transfer between parts A and B under medicare, particularly with respect to those cases where a denial of coverage is made under part A of medicare; and no adjustment is made in the reimbursement to the admitting physician or physicians. (section 603(a)(3)(B), Public Law 98–21).	April 1, 1985.
Secretary of HHS shall report to the Congress on the appropriate treatment of uncompensated care costs, and adjustments that might be appropriate for large teaching hospitals located in rural areas. (section 603(a)(3)(C), Public Law 98–21).	April 1, 1985.
Secretary of HHS shall report to Congress on the advisability of having hospitals make available information on the cost of care to patients financed by both public programs and private payors. (section 603(a)(3)(D), Public Law 98–21).	April 1, 1985.
Secretary of HHS shall monitor and report to Congress on physician services during the fee freeze in order to determine any changes in the per capita volume and mix of services provided to beneficiaries under part B, classified by participating and nonparticipating physicians, by assigned and nonassigned claims, by specialty, and be geographic area including legislative recommendations. (section 2306(d), Public Law 98–369).	July 1, 1985.
Secretary of HHS shall report to Congress on the advisability and feasibility of making payments for physicians services furnished to hospital inpatients based on a diagnosis-related group system and to make legislative recommendations. (section 603(a)(2)(B), Public Law 98–21; section 2317, Public Law 98–369).	July 1, 1985.
The Comptroller General is directed to conduct a study on: (1) the ability of HCFA to manage competitive bidding for agreements and contracts under sections 1816 and 1842 and the relative costs and efficiency of such competitive agreements and contracts as compared to current reimbursement for such agreements and contracts; (2) the need, if any, for eliminating the provider nomination procedure under section 1816(a); (3) the disparities, if any, in costs and quality of claims processing pursuant to sections 1816 and 1842; (4) whether the standards of the Secretary of HHS for evaluating costs and performance of intermediaries and carriers are adequate and properly applied; and (5) whether the Secretary's statutory authority is sufficient to deal with inefficient intermediaries and carriers either through the contract negotiation and budget review process or through the process for termination or nonrenewal of contracts. (section 2326(e), Public Law 98–369).	July 18, 1985.
An expert commission to study medicare prospective payment shall report to Congress on its evaluation of any recalibration the Secretary of HHS may make in DRG's (Public Law 98–21).	After fiscal year 1986.
Secretary of HHS shall conduct a study and report to Congress on whether or not the reimbursement method and benefit structure (including co-payments) for hospice care under medicare are fair and equitable and promote the most efficient provision of hospice care. Such report shall include the feasibility and advisability of providing for prospective reimbursement for hospice care, an evaluation of the inclusion of payment for outpatient drugs, an evaluation of the need to alter the method of reimbursement for nutritional, dietary, and bereavement counseling as hospice care, the necessity and appropriateness of the requirement that certain 'core' services be furnished directly, and any recommendations for legislative changes in the hospice care reimbursement or benefit structure. Such study shall be monitored and evaluated by the Comptroller General. (section 122(i)(1) and (2), Public Law 97–248; section 2343(d), Public Law 98–369).	January 1, 1986.
The Comptroller General is directed to conduct a study and report to Congress of the amounts billed for physician services and paid by carriers under section 1842(b)(7) to determine whether such payments have been made only where the physician satisfies the requirements of section 1841(b)(7)(A)(i). (section 2307(c), Public Law 98–369).	January 18, 1986.

Topic	Due date
NOT YET DUE	
The Comptroller General is directed to report to Congress on the appropriateness of the outpatient diagnostic laboratory fee schedule and their impact on the volume and quality of clinical laboratory services, the potential impact of the adoption of a national fee schedule and the impact such a fee schedule would have on hospital outpatient services. GAO is directed to report on any changes in the volume of lab tests done by physicians or labs. The Secretary of HHS is directed to report on the advisability and feasibility of a system of direct payment to any physicians for all clinical diagnostic lab tests ordered by such physicians. (section 2303(i)(1)(2), Public Law 98-369).	January 1, 1987.
Secretary of HHS shall submit a final report to Congress on the social HMO projects. (section 2355(d)(2), Public Law 98-369).	January 18, 1987.
Secretary of HHS is directed to report to Congress with respect to the use of stabilization funds by eligible organizations under section 1876(g)(5) of the Act and shall assess the need for such funds. (section 2350(b)(4), Public Law 98-369).	January 18, 1988.
Secretary of HHS shall submit an interim report to Congress on a study evaluation the extent of, and reasons for, the termination by medicare beneficiaries of their memberships in organizations with contracts under sec. 1876 of the Act placing special emphasis on the quantity and quality of medical care provided in such organizations and the quality of such medical care provided in such organizations and the quality of such care when provided on a fee-for-service basis. (section 114(e), Public Law 97-248).	Within 2 years after implementation.
Secretary of HHS shall submit a final report to Congress on a study evaluating the extent of, and reasons for, the termination by medicare beneficiaries of their memberships in organizations with contracts under section 1876 of the Act placing special emphasis on the quantity and quality of such medical care provided in such organizations and the quality of such care when provided on a fee-for-service basis. (section 114(e), Public Law 97-248).	Within 5 years after implementation.
Board of Trustees to make a timely report to Congress of any amount (including interest) under the interfund borrowing authority that will expire December 31, 1982. (section 1, Public Law 97-123).	No date certain.
Secretary of HHS shall report on adjustments that may be required in medicare prospective payment amounts for such cases which have an unusually short length of stay or which are significantly less costly than the DRG payment with recommendations on how to address this issue. (Public Law 98-21).	No date certain.
Secretary shall conduct a study and report to Congress proposed criteria under which, in the case of a hospital that demonstrates to the Secretary in the current fiscal year that the adjustment being made under paragraph (2)(H) or (3)(E) of section 1886(d) of the Act for that hospital's discharges in that fiscal year does not accurately reflect the wage levels in the labor market serving the hospital. (section 2316(c), Public Law 98-369).	No date certain.
Secretary of HHS shall conduct a study and report to Congress of possible methods of reimbursement under medicare which would not discourage the use of certified registered nurse anesthetists. (section 2312, Public Law 98-369).	No date certain.
Secretary of HHS to review OTA report due December 31, 1985 on part B payment for physicians (section 2309(c), Public Law 98-369).	No date certain.
Secretary of HHS shall report on the advisability of continuing a fee schedule for hospital-based lab servicing hospital outpatients, and if advisable, the appropriate fee level. (H. Rpt. 98-861, p. 1305, Public Law 98-369).	No date certain.

APPENDIX C. NATIONAL HEALTH CARE EXPENDITURES AND EXPENDITURES FOR HEALTH CARE OF THE ELDERLY

NATIONAL HEALTH EXPENDITURES

During 1965 (the year prior to the beginning of the Medicare and Medicaid programs), national health expenditures were $41.9 billion; by 1984, annual expenditures were $387.4 billion, over nine times that amount. Hospital care expenditures are the largest component of national health expenditures, representing 40.8 percent of total national health spending in 1984. In terms of per capita spending, $644 was spent for hospital care per capita in 1984 compared to $604 in 1983, an increase of 6.6 percent (see table 2).

Of the various sources of payment for personal health care expenditures in 1984, 31.3 percent ($107.2 billion) was paid by private health insurance, 18.5 percent ($63.1 billion) was paid by Medicare, 11.1 percent ($38 billion) was paid by other Federal sources (including Medicaid), 10.0 percent ($34.3 billion) was paid from State and local sources, and 27.9 percent ($95.4 billion) was paid by direct (out-of-pocket) payments by individuals.

TABLE 1.—NATIONAL HEALTH EXPENDITURES: AGGREGATE AMOUNTS FOR SELECTED CALENDAR YEARS 1965, 1970, 1975, 1980, AND 1984

[Amount in billions]

	1965	1970	1975	1980	1984
Total	$41.9	$75.0	$132.7	$247.5	$387.4
Percent of GNP	6.1	7.6	8.6	9.4	10.6
Health services and supplies	$38.4	$69.6	$124.3	$235.6	$371.6
Personal health care	35.9	65.4	117.1	219.1	341.8
Hospital care	14.0	28.0	52.4	101.3	157.9
Physicians' services	8.5	14.3	24.9	46.8	75.4
Dentists' services	2.8	4.7	8.2	15.4	25.1
Other professional services	1.0	1.6	2.6	5.6	8.8
Drugs and medical sundries	5.2	8.0	11.9	18.5	25.8
Eyeglasses and appliances	1.2	1.9	3.2	5.1	7.4
Nursing home care	2.1	4.7	10.1	20.4	32.0
Other health services	1.1	2.1	3.8	5.9	9.4
Expenses for prepayment and administration	1.7	2.8	4.0	9.2	19.1
Government public health activities	.8	1.4	3.2	7.2	10.7
Research, and construction of medical facilities	3.5	5.4	8.4	11.9	15.8

Note: Totals may not not add due to rounding.

Source: Katharine R. Levit, Helen Lazenby, Daniel R. Waldo, and Lawrence Mr. Davidoff. "National Health Expenditures, 1984." Health Care Financing Review, Fall 1985, p. 1.

TABLE 2.—NATIONAL HEALTH EXPENDITURES: PER CAPITA AMOUNTS FOR SELECTED CALENDAR YEARS 1965, 1970, 1975, 1980, AND 1984

[Dollar amount per capita]

	1965	1970	1975	1980	1984
Total	$207	$350	$591	$1,049	$1,580
Health services and supplies	189	325	554	999	1,515
Personal health care	177	305	522	929	1,394
Hospital care	69	131	233	429	644
Physicians' services	42	67	111	199	307
Dentists' services	14	22	37	65	102
Other professional services	5	7	12	24	36
Drugs and medical sundries	26	37	53	79	105
Eyeglasses and appliances	6	9	14	22	30
Nursing home care	10	22	45	86	131
Other health services	6	10	17	25	39
Expenses for prepayment and administration	9	13	18	39	78
Government public health activities	4	7	14	31	43
Research, and construction of medical facilities	17	25	37	51	64

Note: Totals may not add due to rounding.

Source: Katharine R. Levit, Helen Lazenby, Daniel R. Waldo, and Lawrence M. Davidoff. "National Health Expenditures, 1984." Health Care Financing Review, Fall 1985, p. 1.

TABLE 3.—PERSONAL HEALTH CARE EXPENDITURES: AGGREGATE AMOUNTS AND PERCENTAGE DISTRIBUTION FOR SELECTED CALENDAR YEARS 1965, 1970, 1975, 1980, AND 1984

	1965	1970	1975	1980	1984
	Amount in billions				
Total	$35.9	$65.4	$117.1	$219.1	$341.8
Private	28.0	42.9	70.8	132.4	206.5
Private health insurance	8.7	15.3	31.2	67.3	107.2
Patient direct payments	18.5	26.5	38.0	62.5	95.4
Philanthropy and in-plant health services	0.8	1.1	1.6	2.6	3.9
Public	7.9	22.4	46.3	86.7	135.4
Federal	3.6	14.5	31.4	62.5	101.1
State and local	4.3	7.9	14.9	24.2	34.3
	Percentage distribution				
Total	100.0	100.0	100.0	100.0	100.0
Private	78.0	65.6	60.5	60.4	60.4
Private health insurance	24.2	23.4	26.7	30.7	31.3
Patient direct payments	51.6	40.5	32.5	28.5	27.9
Philanthropy and in-plant health services	2.2	1.7	1.3	1.2	1.2

TABLE 3.—PERSONAL HEALTH CARE EXPENDITURES: AGGREGATE AMOUNTS AND PERCENTAGE DISTRIBUTION FOR SELECTED CALENDAR YEARS 1965, 1970, 1975, 1980, AND 1984—Continued

	1965	1970	1975	1980	1984
Public	22.0	34.3	39.5	39.6	39.6
Federal	10.1	22.2	26.8	28.5	29.6
State and local	11.9	12.1	12.7	11.0	10.0

Note: Totals may not add due to rounding.

Source: Katharine R. Levit, Helen Lazenby, Daniel R. Waldo, and Lawrence Davidoff. "National Health Expenditures, 1984." Health Care Financing Review, Fall 1985, p. 1.

Expenditures for Hospital Care

During 1965 (the year prior to the beginning of the Medicare and Medicaid programs), national expenditures for hospital care amounted to $13 billion. By 1984, annual expenditures had reached $157.9 billion, over 12 times the 1965 amount. In 1984, hospital inpatient expenditures, which had been increasing rapidly for many years, slowed. The 1984 increase of 6.1 percent is the slowest increase experienced in the last 19 years.

From 1970 to 1977, inpatient expenditures in community hospitals grew at an average annual rate of 14.6 percent. After a marked slowing in 1978 and 1979, growth accelerated rapidly and reached an annual rate of 18.4 percent in 1981. Since 1981, the annual rate of increase in inpatient hospital expenses has been declining steadily, following the decline in overall inflation in the economy. During 1982, community hospital inpatient expenditures slowed to an annual increase of 15.5 percent. During 1983, the rate of increase dropped to 9.6 percent.

This rapid growth in hospital costs has led to substantial increases in Federal spending for Medicare and Medicaid, of which roughly 60 percent is for hospital care. Federal outlays under these programs for hospital care totaled approximately $51.8 billion in 1984, an increase of nearly $10 billion from 1981.

The cost of hospital care has typically increased more than the "hospital market basket," which measures changes in the prices of goods purchased by hospitals. This index increased annually by an average of 9.2 percent from 1977 to 1983 whereas Medicare hospital expenditures grew an average annual rate of 16.7 percent over the same period. In 1984, growth in Medicare hospital spending slowed to 9.6 percent. Some health researchers credit the reduced rate of growth in Medicare hospital expenditures to lower hospital price inflation and stronger cost containment measures.

There are a variety of factors other than overall inflation which contribute to aggregate changes in hospital expenses. These factors include: population growth, factors such as aging of the population which affect admission rates, inflation in the prices of goods and services purchased by the hospitals (input factor prices) over and above general inflation, and changes in the type and mix (intensity) of services rendered due to such factors as changes in the use of technology or treatment patterns. It has been estimated that 51.6 percent of the overall growth in inpatient hospital expenses between 1972 and 1982 was due to overall inflation, 6.9 percent to population growth, 6.8 percent to increases in admissions per capita, 13.0 percent additional inflation in hospital input prices relative to overall inflation in the general economy, and 21.7 percent to intensity of services per admission.[1]

TABLE 4.—HISTORICAL AND PROJECTED INCREASES IN HI HOSPITAL INPATIENT EXPENDITURES, BY COMPONENT OF INCREASE, 1974–90

[Percent increase over previous year]

Calendar year	HI hospital inpatient expenditures	HI inpatient admission volume	Hospital market basket index	Service intensity and productivity[1]
	Historical rates			
1974	23.6	5.9	10.4	5.72
1975	22.6	3.5	10.9	6.81
1976	19.2	4.4	8.2	5.52
1977	17.1	7.7	7.4	1.24
1978	14.9	.7	8.2	5.45
1979	16.4	5.9	9.6	.29
1980	20.2	4.6	11.6	2.97
1981	19.9	4.9	11.7	2.33
1982	17.2	3.1	9.6	3.72
1983	9.8	2.8	6.4	.38
	Projected rates[2]			
1984	7.0	−1.3	5.2	3.05
1985	11.1	−2.4	4.9	3.43
1986	4.4	2.5	5.9	−3.92
1987	10.3	3.1	7.0	−.02
1988	11.0	3.7	6.8	.22
1989	10.4	3.2	6.6	.35
1990	10.5	3.6	6.3	.34

[1] A residual category; that part of annual growth in HI hospital inpatient expenditures not accounted for by growth in HI admissions or increases in the market basket index.

[2] Based on alternative II–B economic assumptions.

Source: Annual Report of the Board of Trustees of the Federal Hospital Insurance Trust Fund, 1985, table A1, p. 62.

EXPENDITURES FOR PHYSICIANS' SERVICES

Personal health care expenditures for physicians' services were $75.4 billion in 1984, an increase of 9.3 percent from the previous year (see table 1). In 1984, 22.0 percent of personal health care expenditures and 19.5 percent of all national health expenditures were for physicians' services. Physicians, however, affect personal health care expenditures more than this might indicate. Physicians have considerable discretion in determining price and volume of all medical services. It is estimated that physicians' decisions (such as ordering hospitalizations, drugs, laboratory tests) directly influence over 70 percent of all health care spending.

---

[1] Freeland, Mark S., and Carol E. Schendler, "Health Spending in the 1980's: Integration of Clinical Practice Patterns with Management." Health Care Financing Review, Spring 1984, p. 18.

Third-party (public expenditures and private insurance) payments financed a large majority of physicians' services. Private health insurance paid $33.5 billion (44 percent) for such services. The remainder was split relatively evenly between direct patient payments and public expenditures. Patients or their families paid $21.0 billion (28 percent) for physicians' services. Public programs paid $20.9 billion (28 percent) for such services, of which $14.6 billion (19 percent) was composed of Federal Medicare payments.

Inflation was a major cause of growth in spending for physicians' services. Physicians' fees have risen more rapidly (6.9 percent in 1985) than prices in the economy as a whole (3.8 percent in 1985), as measured by the Consumer Price Index (CPI) (see table 6).

Expenditures for physicians' services over a 10-year span increased from $17 billion in 1972 to $62 billion in 1982, an annual growth rate of about 14 percent. Of this expenditure growth, increases in overall inflation accounted for 57 percent, increases in the CPI for physicians' fees accounted for 13 percent, increases in visits accounted for 3 percent, and increased intensity per visit for 27 percent.

The average 1984 net income after expenses but before taxes for physicians was $108,400, an increase of 2.0 percent over the previous year (see table 7). Surgeons had the highest average net income ($151,800) among the specialty groups. Internists experienced the highest growth in average net income, 10.6 percent. In contrast, the net income of obstetric/gynecology specialists, and radiologists fell by 3.1 and 5.5 percent respectively. By region, average net income growth rates varied greatly ranging from −4.3 percent in the East South Central and the East North Central Regions to 11.9 percent in the Mountain States. As a result, physicians in the South and North Central regions continued to have the highest average net incomes ($119,100 and $122,200), physicians in the Pacific and East North Central Regions were in the middle of the range ($109,400), and physicians in New England had the lowest average net income ($87,300). The growth rates differed more noticeably between rural and urban areas, ranging from 4.2 percent in nonmetropolitan areas to 3.7 percent and 0.1 percent for metropolitan areas with less than and more than 1 million population. The average net income of self-employed physicians ($118,600) continued to be higher than the average net income of employee physicians ($80,400). The 3.6 percent growth rate in employee physicians' net income was higher than the 2.3 percent growth rate for self-employed physicians.

The 1982 continuing survey of physicians' income conducted by Medical Economics [2] showed that the typical office-based doctor re-

---

[2] Owens, Arthur. "How Much of Your Income Comes From Third Parties?" in Medical Economics, April 4, 1983.

BEST COPY AVAILABLE

ceived two-thirds of his 1981 gross practice income from third parties (see table 8). On the average, 21 percent came from commercial health insurance, 20 percent from Blue Shield, 17 percent from Medicare, and 8 percent from Medicaid. Table 8 also shows the breakdown of gross practice income from each third party. For example, thoracic surgeons on average receive 35 percent ($72,420 per capita) of their gross income from Medicare, while pediatricians on average gain only 1 percent ($1,170 per capita) of their gross incomes from Medicare.

TABLE 5.—PERSONAL HEALTH CARE EXPENDITURES FOR PHYSICIAN SERVICES [1] BY SELECTED THIRD-PARTY PAYERS: CALENDAR YEARS 1982–84

[Amounts in billions]

Source of payment	1982		1983		1984	
	Amount	Percent	Amount	Percent	Amount	Percent
Total	$61.8	100.0	$68.4	100.0	$75.4	100.0
Direct payments	17.7	28.7	18.9	27.7	21.0	27.8
Third-party payments	44.1	71.3	49.5	72.3	54.4	72.2
Private health insurance	27.1	43.8	30.1	44.0	33.5	44.4
Philanthropy and industrial inplant	(2)	(2)	(2)	(2)	(2)	(2)
Government	16.9	27.4	19.3	28.3	20.9	27.8
Federal	13.4	21.7	15.6	22.8	16.9	22.4
Medicare [3]	11.4	18.4	13.4	19.5	14.6	19.3
Medicaid [4]	1.5	2.5	1.6	2.3	1.7	2.2
Other	.5	.7	.6	.9	.7	.9
State and local	3.6	5.7	3.8	5.5	4.0	5.3
Medicaid [4]	1.3	2.1	1.3	2.0	1.4	1.8
Other	2.3	3.7	2.4	3.5	2.6	3.5

---

[1] Encompasses the cost of all services and supplies provided in physicians' offices, the cost for services of private practitioners in hospitals and other institutions, and the cost of diagnostic work performed in independent clinical laboratories. The salaries of staff physicians are counted with expenditures for the services of the employing institution.

[2] Less than $50 million.

[3] Represents total expenditures from funds for benefits. Trust fund income includes premium payments paid by or on behalf of enrollees.

[4] Includes funds paid into Medicare trust funds by States under "buy-in" agreements to cover premiums for public assistance recipients and for persons who are medically indigent.

Source: Office of Financial and Actuarial Analysis, Bureau of Data Management and Strategy. Health Care Financing Administration as reported in Katharine R. Levit, Helen Lazenby, Daniel R. Waldo and Lawrence M. Davidoff. "National Health Expenditures, 1984." Health Care Financing Review, Fall 1985, p. 1.

TABLE 6.—ANNUALIZED RATES OF CHANGE IN THE CONSUMER PRICE INDEX (CPI–U)[1] 1965–85

	CPI all items	CPI, all items less medical care	Medical care total	Physicians' services
1965	1.7	1.5	2.5	3.6
1966	2.9	3.0	4.4	5.8
1967	2.9	2.4	7.1	7.1
1968	4.2	4.1	6.1	5.6
1969	5.4	5.4	6.9	6.9
1970	5.9	5.8	6.3	7.5
1971	4.3	4.1	6.5	6.9
1972	3.3	3.3	3.2	3.1
1973	6.2	6.4	3.9	3.3
1974	11.0	11.1	9.3	9.2
1975	9.1	8.9	12.0	12.3
1976	5.8	5.5	9.5	11.3
1977	6.5	6.2	9.6	9.3
1978	7.7	7.6	8.4	8.3
1979	11.3	11.4	9.3	9.2
1980	13.5	13.6	10.9	10.6
1981	10.4	10.3	10.8	11.0
1982	6.1	5.9	11.6	9.4
1983	3.2	2.9	8.7	7.7
1984	4.3	4.1	6.2	7.0
1985	3.8	3.6	6.7	6.9

[1] CPI index for all urban consumers, unadjusted figures.

Source: U.S. Department of Labor, Bureau of Labor Statistics, Consumer Price Index.

TABLE 7.—PHYSICIANS' AVERAGE NET INCOME AFTER EXPENSES BUT BEFORE TAXES, SURVEY RESULTS, 1983 AND 1984

	Average net income[1] (in thousands)		Percent change
	1983	1984	
All physicians[2]	$106.3	$108.4	2.0
Specialty:			
General/family practice	68.5	71.1	3.8
Internal medicine	93.3	103.2	10.6
Surgery	145.5	151.8	4.3
Pediatrics	70.7	74.5	5.4
Obstetrics/gynecology	119.9	116.2	−3.1
Radiology	148.0	139.8	−5.5

TABLE 7.—PHYSICIANS' AVERAGE NET INCOME AFTER EXPENSES BUT BEFORE TAXES, SURVEY RESULTS, 1983 AND 1984—Continued

	Average net income [1] (in thousands)		Percent change
	1983	1984	
Psychiatry	80.0	85.5	6.9
Anesthesiology	144.7	145.4	0.5
Census Division:			
New England	84.5	87.3	3.3
Middle Atlantic	98.6	98.4	−0.2
East North Central	114.3	109.4	−4.3
West North Central	110.5	110.7	0.2
South Atlantic	106.7	114.5	7.3
East South Central	114.9	122.2	6.4
West South Central	124.4	119.1	−4.3
Mountain	91.4	102.3	11.9
Pacific	103.1	109.4	6.1
Location:			
Nonmetropolitan	87.2	90.9	4.2
Metropolitan:			
Less than 1,000,000	111.0	115.1	3.7
1,000,000 and over	106.3	106.4	0.1
Employment Status:			
Self-employed	115.9	118.6	2.3
Employee	77.6	80.4	3.6

---

[1] Average net income after expenses but before taxes. These figures include contributions made into pension, profit-sharing, and deferred compensation plans.

[2] Includes physicians in specialties not reported separately.

Source: Socioeconomic Characteristics of Medical Practice, 1985, American Medical Association.

TABLE 8.—NET PRACTICE EARNINGS OF PHYSICIANS NATIONWIDE FROM 16 SPECIALTIES, SURVEY RESULTS, 1981

	Commercial plans		Blue Shield		Medicare		Medicaid	
	Amount per capita	As percent of gross	Amount per capita	As percent of gross	Amount per capita	As percent of gross	Amount per capita	As percent of gross
Anesthesiologists	$40,880	27	$43,750	29	$32,790	22	$12,970	10
Family practitioners	25,110	17	18,390	13	21,220	15	12,370	9
General practitioners	22,620	17	16,800	13	21,170	18	12,250	10
General surgeons	47,700	26	45,570	27	43,750	25	13,190	8
Internists	20,870	15	26,420	19	39,630	29	8,740	7
Neurologists	34,070	22	32,860	22	37,390	24	12,040	9
Neurosurgeons	67,040	32	57,220	28	37,310	18	14,920	8
Obstetricians/gynecologists	59,690	32	55,070	30	8,530	5	15,450	8
Ophthalmologists	18,900	10	21,610	11	49,010	24	12,770	8
Orthopedic surgeons	76,920	31	58,050	25	43,220	17	14,390	6
Pathologists	18,420	14	34,850	26	28,000	21	13,330	11

TABLE 8.—NET PRACTICE EARNINGS OF PHYSICIANS NATIONWIDE FROM 16 SPECIALTIES, SURVEY RESULTS, 1981—Continued

	Commercial plans		Blue Shield		Medicare		Medicaid	
	Amount per capita	As percent of gross	Amount per capita	As percent of gross	Amount per capita	As percent of gross	Amount per capita	As percent of gross
Pediatricians	16,750	14	12,080	12	1,170	1	10,950	9
Plastic surgeons	43,870	25	34,670	22	18,780	12	8,710	5
Psychiatrists	25,370	24	20,140	19	6,370	6	5,340	5
Radiologists	32,840	18	51,420	28	49,730	28	18,450	11
Thoracic surgeons	43,110	21	57,990	26	72,420	35	15,930	7
All surgical specialists	50,950	26	48,010	25	38,910	20	13,540	8
All non-surgical specialists	25,710	19	27,430	20	24,660	17	10,710	8
All M.D.'s	33,480	21	32,030	20	27,490	17	11,440	8

Source: Medical Economics Continuing Survey, 1982, as reported in Owens, Arthur. "How Much of Your Income Comes From Third Parties?" Medical Economics, April 4, 1983.

HEALTH CARE EXPENDITURES FOR THE ELDERLY

Expenditures for personal health care services for the elderly have nearly tripled over the last 7 years, rising from $43 billion in 1977 to an estimated $120 billion in 1984 (see table 8). Per capita spending rose an average of 13 percent annually during those years, from $1,785 to $4,202 (see table 10).

Government programs (Federal and State) account for two-thirds ($2,823 per capita) of estimated 1984 spending for the aged (see table 11). The most significant of these programs is Medicare which pays for nearly half ($2,051 per capita) of the aged's health bill. Medicaid funds about 13 percent ($536 per capita) of the expenditures. Other Government health programs are the source of roughly 6 percent ($236 per capita) of personal health care expenditures for people 65 years of age and over.

Consumers are responsible for the remaining one-third ($1,379 per capita) of spending for the aged. One-quarter ($1,059 per capita) of the total health bill for the aged was paid by direct patient payments, also termed out-of-pocket expenses. Out-of-pocket payments by the elderly represent the difference between total health expenditures by the aged and known third-party (public expenditures and private insurance) payments. These out-of-pocket payments include Medicare copayments (less any benefits paid for by so-called "medigap" policies), collected reasonable charge reductions, net private health insurance copayments, and the purchase of care not covered by any third party. It is important to note that direct out-of-pocket payments to providers are not the only expenditures by the aged for health care. The aged also pay supplementary medical insurance (SMI or part B) and private health insurance premiums which are not defined as out-of-pocket expenditures. Private health insurance, including medigap policies, covers an additional estimated 7 percent ($304 per capita) of personal health care expenditures for the elderly.

It is difficult to estimate precisely the share of the elderly's income which is spent on health care. There are little data available which examine this question directly. Therefore, these estimates require many assumptions and must be based on data from a variety of sources. The House Select Committee on Aging and the Senate Special Committee on Aging each have developed estimates of these amounts. They both estimated that the elderly's out-of-pocket health care costs as a percentage of mean income were about 12 percent in 1977 and about 15 percent in 1984.[1]

TABLE 9.—PERSONAL HEALTH CARE EXPENDITURES FOR PEOPLE 65 YEARS OF AGE OR OVER, BY SOURCE OF FUNDS AND TYPE OF SERVICE, 1977 AND 1984

[In millions of dollars]

Year and source of funds	Type of service				
	Total care	Hospital	Physician	Nursing home	Other care
1977					
Total	43,425	18,906	7,782	10,696	6,041
Private	15,669	2,319	3,323	5,424	4,603
Consumer	15,499	2,263	3,320	5,352	4,564
Out-of-pocket	12,706	927	2,147	5,264	4,368
Insurance	2,793	1,336	1,173	88	195
Other private	170	56	3	72	39
Government	27,756	16,587	4,458	5,272	1,438
Medicare	19,171	14,087	4,158	348	578
Medicaid	6,049	733	232	4,453	631
Other government	2,536	1,767	68	470	230
Exhibit: Population (in millions)	24.3				
1984					
Total	119,872	54,200	24,770	25,105	15,798
Private	39,341	6,160	9,827	13,038	10,316
Consumer	38,875	5,964	9,818	12,856	10,237
Out-of-pocket	30,198	1,694	6,468	12,569	9,467
Insurance	8,677	4,270	3,350	287	770
Other private	466	196	9	182	79
Government	80,531	48,040	14,943	12,067	5,482
Medicare	58,519	40,524	14,314	539	3,142
Medicaid	15,288	2,595	467	10,418	1,808
Other government	6,724	4,920	162	1,110	532
Exhibit: Population (in millions)	28.5				

Source: Office of Financial and Actuarial Analysis, Health Care Financing Administration as reported in Waldo, Daniel R., and Helen C. Lazenby. "Demographic characteristics and health care use and expenditures by the aged in the United States: 1977–1984." Health Care Financing Review, Fall 1984 No. 1, p. 1.

---

[1] House Select Committee on Aging, press release, October 31, 1984. Senate Special Committee on Aging, Medicare and the Health Costs of Older Americans: The Extent and Effects of Cost Sharing, committee print, April 1984.

TABLE 10.—PERSONAL HEALTH CARE EXPENDITURES PER CAPITA FOR PEOPLE 65 YEARS OF AGE OR OVER, BY SOURCE OF FUNDS AND TYPE OF SERVICE, 1977 AND 1984

Year and source of funds	Type of service				
	Total care	Hospital	Physician	Nursing	Other care
1977					
Total	$1,785	$777	$230	$440	$248
Private	644	95	137	223	189
Consumer	637	93	136	220	188
Out-of-pocket	522	38	88	216	180
Insurance	115	55	48	4	8
Other private	7	2	(1)	3	2
Government	1,141	682	183	217	59
Medicare	788	579	171	14	24
Medicaid	249	30	10	183	26
Other government	104	73	3	19	9
1984					
Total	4,202	1,900	868	880	554
Private	1,379	216	344	457	362
Consumer	1,363	209	344	451	359
Out-of-pocket	1,059	59	227	441	332
Insurance	304	150	117	10	27
Other private	16	7	(1)	6	3
Government	2,823	1,684	524	423	192
Medicare	2,051	1,420	502	19	110
Medicaid	536	91	16	365	63
Other government	236	172	6	39	19

[1] Less than $.50.

Source: Office of Financial and Actuarial Analysis, Health Care Financing Administration as reported in Waldo, Daniel, R., and Helen C. Lazenby. "Demographic characteristics and health care use and expenditures by the aged in the United States: 1977–1984." Health Care Financing Review. Fall 1984 No. 1, p. 1.

TABLE 11.—PERCENT DISTRIBUTION OF PERSONAL HEALTH CARE EXPENDITURES PER CAPITA FOR PEOPLE 65 YEARS OF AGE OR OVER, BY SOURCE OF FUNDS AND TYPE OF SERVICE: 1977 AND 1984

Year and source of funds	Type of service				
	Total care	Hospital	Physician	Nursing home	Other care
1977					
Total per capita	100.0	100.0	100.0	100.0	100.0
Private	36.1	12.3	42.7	50.7	76.2
Consumer	35.7	12.0	42.7	50.0	75.5
Out-of-pocket	29.3	4.9	27.6	49.2	72.3
Insurance	6.4	7.1	15.1	0.8	3.2
Other private	0.4	0.3	.0	0.7	0.6
Government	63.9	87.7	57.3	49.3	23.8
Medicare	44.1	74.5	53.4	3.3	9.6
Medicaid	13.9	3.9	3.0	41.6	10.4
Other government	5.8	9.3	0.9	4.4	3.8
1984					
Total per capita	100.0	100.0	100.0	100.0	100.0
Private	32.8	11.4	39.7	51.9	65.3
Consumer	32.4	11.0	39.6	51.2	64.8
Out-of-pocket	25.2	3.1	26.1	50.1	59.9
Insurance	7.2	7.9	13.5	1.1	4.9
Other private	0.4	0.4	.0	0.7	0.5
Government	67.2	88.6	60.3	48.1	34.7
Medicare	48.8	74.8	57.8	2.1	19.9
Medicaid	12.8	4.8	1.9	41.5	11.4
Other government	5.6	9.1	0.7	4.4	3.4

Source: Office of Financial and Actuarial Analysis, Health Care Financing Administration as reported in Waldo, Daniel, R., and Helen C. Lazenby. "Demographic characteristic and health care use and expenditures by the aged in the United States: 1977–1984." Health Care Financing Review. Fall 1981, p. 1.

Expenditures for Hospital Care by the Elderly

Medicare is now paying a slightly larger proportion of the hospital bills for the aged. In 1977, $18.9 billion was spent on hospital care for persons 65 and over. Of this amount, the Medicare program paid $14.1 billion, or 74.5 percent. In 1984, hospital care expenditures for the aged are estimated to be $54.2 billion; the Medicare program is estimated to pay $40.5 billion or 74.8 percent of all hospital care expenditures for the aged (see tables 9–11).

It is estimated that approximately 69 percent of all Medicare benefits in 1984 went for hospital care ($40.5 billion out of a benefit total of $58.5 billion). This percentage is slightly lower than in 1970, when 71.8 percent of Medicare benefits went for hospital care ($5.1 billion out of a benefit total of $7.1 billion).

Total Medicare reimbursement to short-stay hospitals more than quadrupled from 1970 to 1981, increasing from $4.5 billion to $24.7 billion, an average annual increase of approximately 15 percent. During this period, the average reimbursement to short-stay hospitals per discharged Medicare enrollee rose from $763 to $2,434, despite a decrease from 13.1 days to 10.3 days in the average length of stay for each discharged enrollee. The average reimbursement per hospital day covered by the program increased from $60 in 1970 to $241 in 1981. The increase in Medicare short-stay hospital reimbursements between 1970 to 1981 was primarily a function of the increased cost of hospital care as measured by reimbursement per covered day (see table 12).

TABLE 12.—USE OF SHORT STAY HOSPITAL SERVICES BY MEDICARE HOSPITAL INSURANCE (HI) BENEFICIARIES: NUMBER OF HI ENROLLEES AND DISCHARGES, DAYS OF CARE, CHARGES, AND REIMBURSEMENT, CALENDAR YEARS, 1970–83 [1]

Year	Number of enrollees	Number of discharges (thousands)	Mean length of stay (in days)		Days of care			Total charges			Reimbursement		
			Total	Covered	Total number (thousands)	Covered		Amount (millions)	Per discharge	Per day	Amount (millions)	Per discharge	Percent of total charges
			Amount (thousands)	Per discharge		Number (thousands)	Percent of total days						
1970 [2]	20,361,152	5,951	13.0	12.7	77,363	75,578	97.7	$5,886	$989	$76	$4,481	$753	76.1
1971 [2]	20,742,250	6,090	12.5	12.2	76,125	74,298	97.6	6,638	1,090	87	5,036	827	75.9
1972 [2]	21,115,261	6,380	12.1	11.8	77,198	75,204	97.5	7,401	1,160	96	5,576	874	75.3
1973 [2]	23,301,082	6,984	11.7	11.5	81,529	79,976	98.1	8,494	1,216	104	6,446	952	70.2
1974	23,924,145	7,629	11.5	11.3	87,523	86,193	98.5	10,471	1,373	120	7,837	1,027	74.8
1975	24,640,497	8,001	11.2	11.0	89,275	87,656	98.2	13,073	1,634	146	9,748	1,218	74.6
1976	25,312,575	8,465	11.0	10.8	93,480	91,770	98.2	15,951	1,882	170	11,803	1,394	74.1
1977	26,093,919	8,808	11.0	10.8	96,825	95,119	98.2	19,157	2,170	197	13,944	1,583	73.0
1978	26,777,263	9,216	10.8	10.6	99,372	97,598	98.2	22,408	2,431	225	16,008	1,737	71.4
1979	27,459,157	9,642	10.7	10.4	102,469	100,571	98.1	26,120	2,709	254	18,463	1,915	70.7
1980	28,066,894	10,279	10.6	10.4	109,175	106,512	97.6	31,992	3,112	293	22,099	2,150	69.1
1981	28,589,504	10,660	10.4	10.1	110.806	107,233	96.8	38,164	3,580	344	25,936	2,433	60.0
1982	29,068,966	11,109	10.2	9.8	113,047	109,249	96.6	46,369	4,174	410	30,601	2,755	66.0
1983	29,587,295	11,436	9.8	9.5	112,011	109,189	97.5	54,127	4,733	483	34,338	3,003	63.4

---

[1] 1970–73 data based on bills processed through December 1980; 1974–1981 data from bills processed through June 1982.

[2] Prior to 1973, services were covered only for beneficiaries aged 65 and over. Effective July 1, 1973, HI benefits were extended to persons under 65 years of age who were entitled to cash benefits for not less than 24 consecutive months under the disability insurance program and to persons with End-Stage Renal Disease (ESRD).

Source: Bureau of Data Management and Strategy, Health Care Financing Administration, unpublished data from Medicare Health Insurance Master Files.

EXPENDITURES FOR PHYSICIAN SERVICES BY THE ELDERLY

Total expenditures for physicians' services for the aged grew an average of 18 percent per year from $7.8 billion in 1977 to an estimated level of $24.8 billion in 1984 (see table 10). Medicare was estimated to have paid the largest share, nearly 58 percent, of the $868 per capita projected amount spent by the elderly in 1984. Direct patient payments—including coinsurance, deductibles, and services not covered by third parties—accounted for about 26 percent. Private insurers were estimated to pay almost 14 percent of the total. Government programs other than Medicare, including Medicaid, were estimated to cover about 3 percent. These proportions were similar in 1977.

The percentage of total physician services paid for by Medicare has declined slightly since the early years of the program from 57.3 percent in fiscal year 1968 to 57.8 percent in calendar year 1984. At the same time there has been a significant increase in reasonable charge reductions for unassigned Medicare claims; the average amount reduced per approved unassigned claim was $28.69 in calendar year 1983. These reductions can become an out-of-pocket expense for beneficiaries.

DISTRIBUTION OF PER RECIPIENT MEDICARE EXPENDITURES AND DEDUCTIBLE AND COPAYMENT AMOUNTS

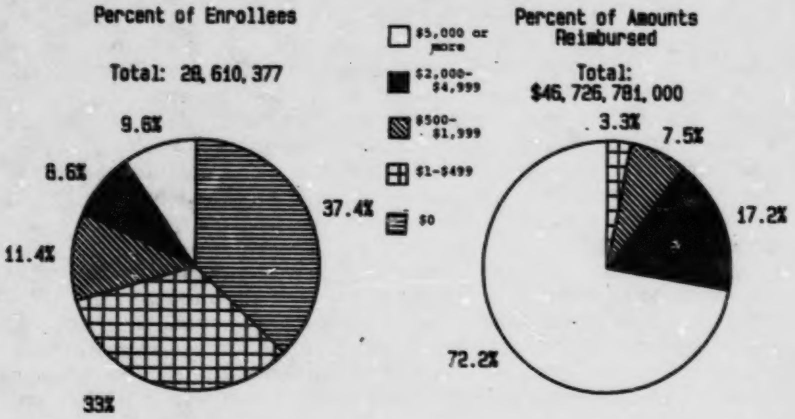
A significant portion of Medicare beneficiaries receive no reimbursement for Medicare services in a given year. Under the part A program in 1984 there were 29.6 million beneficiaries with hospital insurance protection. Of this number only 7.6 million (25.6 percent) received any reimbursed services under part A of the program. Thus, 22.0 million (74.3 percent) beneficiaries eligible under part A received no reimbursed service.

Under part B of the program in 1984 there were 29.2 million beneficiaries with part B coverage. Of this total, 20.9 million (71.9 percent) received reimbursed services. Thus, 8.3 million or 28.1 percent of eligible beneficiaries under the part B program received no reimbursed services under the program.

Medicare per capita expenditure amounts for the aged do not reflect the considerable variations which exist. In 1983, 70.4 percent of aged enrollees under parts A and/or B had Medicare reimbursements totaling less than $500; expenditures for these persons accounted for only 3.3 percent of the total amounts reimbursed. On the other hand, 18.2 percent of persons receiving services under parts A and/or B had Medicare reimbursements totaling over $2,000; expenditures for these persons accounted for 89.4 percent of the total (see figure 1).

In 1983, about 33 percent of aged beneficiaries had Medicare reimbursements between $1 and $500; expenditures for these persons accounted for 3.2 percent of the total amounts reimbursed. Some 14.4 percent had Medicare reimbursements totaling over $3,000; expenditures for these persons accounted for 83.5 percent of the total (see table 13).

FIGURE 1.—Percent Distribution of Aged Persons Served and Amounts Reimbursed Under Hospital Insurance and/or Supplementary Medical Insurance by Amounts Reimbursed, 1983



Source: Health Care Financing Administration, unpublished data.

The following table provides additional information on the distribution of Medicare and expenditures for the aged.

TABLE 13.—NUMBER AND PERCENTAGE DISTRIBUTION OF AGED PERSONS RECEIVING SERVICES AND AMOUNTS REIMBURSED UNDER HOSPITAL INSURANCE AND/OR SUPPLEMENTARY MEDICAL INSURANCE BY AMOUNTS REIMBURSED, 1983

Item	Enrollees			Reimbursement		
	Number in millions	Percent distribution	Cumulative percent	Amount in millions	Percent distribution	Cumulative percent
1983						
All aged persons enrolled	28.6	100.0		$46,727	100.0	
Persons with no reimbursement	10.7	37.4	100.0			
Persons with reimbursement [1]	17.9	62.6		46,727	100.0	
Reimbursement interval:						
Less than $100	4.1	14.2	62.6	187	0.4	100.0
$100 to $499	5.4	18.8	48.4	1,310	2.8	99.6
$500 to $1,499	2.6	8.9	29.6	2,280	4.9	96.8
$1,500 to $2,999	1.8	6.3	20.7	3,934	8.4	91.9
$3,000 to $4,999	1.4	4.8	14.4	5,296	11.3	83.5
$5,000 to $9,999	1.5	5.2	9.6	10,625	22.7	72.2
$10,000 to $14,999	0.6	2.1	4.4	7,238	15.5	49.4
$15,000 or more	0.6	2.3	2.3	15,857	33.9	33.9

[1] Data include experience for persons who exceeded the annual Medicare deductibles and for whom reimbursements were made.

Note: Based on a 5 percent sample.

Source: Bureau of Data Management and Strategy, Health Care Financing Administration and unpublished data.

The preceding discussion has focused on the distribution of medicare reimbursements. Similar data is also available on the liability of medicare beneficiaries, defined as the deductible and coinsurance amounts. It does not include liability for medical service not covered by Medicare or for any liability due to unassigned Medicare claims. It also does not include part B premiums paid by beneficiaries. In 1980, 75.2 percent of aged persons enrolled in both parts A and B had less than $200 in liability for such expenses. On the other hand, enrollees at the high end of the scale were liable for most of the cost sharing owed.

TABLE 14.—DISTRIBUTION OF MEDICARE ENROLLEES AGED 65 AND DISTRIBUTION OF PART A AND PART B COMBINED LIABILITY, 1980 [1]

Liability category	Distribution of enrollee		Distribution of liability	
	Numbers	Percent	Dollars (thousands)	Percent
Total	25,104,680	100.0	4,513,898	100.0
0 to $69	13,107,540	52.2	473,663	10.5
$70 to $119	3,956,460	15.8	366,081	8.1
$120 to $169	1,428,680	5.7	199,859	4.4
$170 to $179	148,200	.6	25,841	.6
$180 to $189	122,200	.5	22,526	.5
$190 to $199	112,960	.4	21,935	.5
$200 to $209	95,100	.4	19,439	.4
$210 to $219	152,840	.6	32,543	.7
$220 to $229	97,400	.4	21,872	.5
$230 to $269	582,120	2.3	146,445	3.2
$270 to $469	2,770,780	11.0	973,879	21.6
$470 to $969	1,979,640	7.9	1,273,110	28.2
$970 to $1,469	341,040	1.4	396,540	8.8
$1,470 and over	209,720	.8	540,166	12.0

[1] Tables adjusted to take into account the missing Part B deductions, estimated to be about $30 per enrollee in 1980.

Source: Gornick, Marian, James Beebe, and Ronald Prihoda, "Options for Change under Medicare Impact of a Cap on Catastrophic Illness Expense." Health Care Financing Review, Fall 1983, p. 37.

SUPPLY OF HOSPITAL BEDS AND PHYSICIANS

The national supply of community hospital beds per 1,000 population has steadily increased since the 1940's, reaching a peak of 4.6 beds per 1,000 population in 1975. By 1983, the number of beds had dropped to 4.4 per 1,000 population. Similar trends can be seen in the nine census regions, except for New England, which has seen a reduction since 1940 from 4.4 beds to 4.1 beds per 1,000 population in 1983, and the Pacific region, where the reduction has been from 4.1 beds in 1940 to 3.3 in 1983. The area experiencing the largest increase has been the East South Central, where beds increased from 1.7 per 1,000 population in 1940 to 5.2 in 1983 (see table 15).

TABLE 15.—HOSPITAL BEDS PER 1,000 POPULATION,[1] ACCORDING TO GEOGRAPHIC DIVISION: UNITED STATES, SELECTED YEARS 1940–83

[Data are based on reporting by facilities]

Geographic division	Year						
	1940[2]	1950[2]	1960[3]	1970	1975	1980	1983
United States	3.2	3.3	3.6	4.3	4.6	4.5	4.4
New England	4.4	4.2	3.9	4.1	4.2	4.1	4.1
Middle Atlantic	3.9	3.8	4.0	4.4	4.6	4.6	4.5
East North Central	3.2	3.2	3.6	4.4	4.7	4.7	4.8
West North Central	3.1	3.7	4.3	5.7	5.8	5.8	5.8
South Atlantic	2.5	2.8	3.3	4.0	4.3	4.5	4.4
East South Central	1.7	2.1	3.0	4.4	4.9	5.1	5.2
West South Central	2.1	2.7	3.3	4.3	4.7	4.7	4.4
Mountain	3.6	3.8	3.5	4.3	4.0	3.8	3.6
Pacific	4.1	3.2	3.1	3.7	3.9	3.5	3.3

[1] Civilian population.

[2] 1940 and 1950 data are estimated based on published figures.

[3] 1960 includes hospital units of institutions.

Note. Hospitals include all non-Federal short-stay hospitals classified by the American Hospital Association according to one of the following services: general medical and surgical; obstetrics and gynecology; eye, ear, nose, and throat, rehabilitation; orthopedic; other specialty; children's general; children's eye, ear, nose, and throat; children's rehabilitation; children's orthopedic; and children's other specialty.

Source: Health, United States, 1984. U.S. Department of Health and Human Services. DHHS Publication No. (PHS) 85-1232, Table 66, pp. 127–128. Data for 1983 from the National Center for Health Statistics, unpublished data.

The number of active physicians in the country has increased from 279,212 in 1970 to 486,635 in 1983. This growth rate exceeded the rate at which the population of the Nation grew during the decade. As table 16 below indicates, the ratio of physicians-to-population increased from 137 physicians per 100,000 population in 1970 to 212 physicians per 100,000 population in 1983. This table also indicates variations in the supply of physicians relative to population by State. In 1983, the District of Columbia had the highest ratio (600 physicians per 100,000 population) while Mississippi had the lowest ratio (122 physicians per 100,000 population).

TABLE 16.—NON-FEDERAL PHYSICIAN/POPULATION RATIOS AND RANK BY STATE

[Ratios: Non-Federal physicians (M.D.'s) per 100,000 civilian population]

Geographic area	1970	1975 [1]	1983	1983 rank
United States [2]	137	156	212	
Alabama	84	100	143	44
Alaska	65	92	132	49
Arizona	123	151	218	13
Arkansas	85	95	143	44
California	175	196	262	6
Colorado	163	172	214	15
Connecticut	178	207	288	5
Delaware	124	138	194	21
District of Columbia	365	436	600	1
Florida	124	155	226	11
Georgia	100	119	163	36
Hawaii	138	160	232	9
Idaho	87	95	125	50
Illinois	130	156	210	17
Indiana	96	109	147	42
Iowa	97	105	145	43
Kansas	108	128	176	29
Kentucky	96	117	155	39
Louisiana	114	127	176	29
Maine	98	122	184	24
Maryland	171	206	313	3
Massachusetts	194	222	315	2
Michigan	117	135	182	25
Minnesota	142	162	217	14
Mississippi	78	87	122	51
Missouri	120	141	185	23
Montana	97	111	150	41
Nebraska	106	124	165	35
Nevada	102	117	167	34
New Hampshire	125	146	199	20
New Jersey	136	162	228	10
New Mexico	103	121	176	29
New York	223	235	308	4
North Carolina	103	124	175	32
North Dakota	88	104	157	38
Ohio	125	137	189	22
Oklahoma	94	108	143	44
Oregon	133	160	207	18
Pennsylvania	143	158	222	12

TABLE 16.—NON-FEDERAL PHYSICIAN/POPULATION RATIOS AND RANK BY STATE—Continued

[Ratios: Non-Federal physicians (M.D.'s) per 100,000 civilian population]

Geographic area	1970	1975 [1]	1983	1983 rank
Rhode Island	143	175	234	8
South Carolina	85	106	152	40
South Dakota	76	83	134	48
Tennessee	113	134	178	27
Texas	109	129	168	33
Utah	129	150	178	27
Vermont	169	189	248	7
Virginia	113	136	201	19
Washington	136	154	211	16
West Virginia	98	120	160	37
Wisconsin	113	129	182	25
Wyoming	91	100	135	47

[1] Numbers of active non-Federal physicians are adjusted for 1975 to include about 90 percent of those not classified as to status or activity by the American Medical Association.

[2] Excludes counts of physicians in U.S. possessions and with unknown addresses.

Source: American Medical Association, Division of Survey and Data Resources, Department of Data Release Services.

The number of physicians in the United States is expected to continue to grow at a faster rate than the general population. The Department of Health and Human Services estimated that there were 221 active physicians per 100,000 population in 1985. They project ratios of 238 in 1990, 252 in 1995, and 264 in 2000.

HEALTH INSURANCE COVERAGE OF THE ELDERLY

According to data collected in the March 1985 Current Population Survey, 99 percent of persons age 65 and over (or approximately 27 million persons) had medical coverage through either a private source (such as an employer group health plan or other privately purchased health insurance) or through a public program (such as Medicare, Medicaid, CHAMPUS, Veterans Administration, or military health care). As shown in table 16 below, most persons age 65 and over (96.3 percent) are covered under the Medicare program, 60.5 percent are covered under private health insurance plans (either employer group plans or other health insurance) and 10.6 percent are covered by Medicaid. The nonpoor aged had higher reported rates of coverage for all forms of health coverage, except for Medicaid and Medicare, than did the aged poor.

TABLE 17.—MEDICAL COVERAGE FOR THE AGED, BY POVERTY STATUS, 1984

[In percent]

	Total	Poor	Nonpoor
Persons age 65 and over (number in thousands)	(26,818)	(3,330)	(23,488)
Total	100.0	100.0	100.0
No medical coverage	1.0	2.6	.7
Any medical coverage	99.0	97.4	99.3
Employer group health	6.6	.7	7.5
Medicare	96.3	96.3	96.3
Medicaid	10.6	35.8	7.0
CHAMPUS, VA, or military health care	3.3	1.3	3.6
Other health insurance	53.9	28.0	57.6

Source: March 1985 Current Population Survey (CPS). Table prepared by the Congressional Research Service, Education and Public Welfare Division.

APPENDIX D. REIMBURSEMENT FOR HOSPITALS AND PHYSICIANS UNDER MEDICARE [1]

REIMBURSEMENT TO HOSPITALS

Before the passage of Public Law 98-21 (the Social Security Amendments of 1983), the Medicare program reimbursed hospitals according to the reasonable costs they incurred in providing services to Medicare beneficiaries. Because the actual reasonable costs could not be determined until after the hospital had provided the services and reported its costs to the Medicare program, this method of reimbursement was known as retrospective cost-based reimbursement.

Public Law 92-603 authorized the Department of Health and Human Services (HHS) to place certain limits on routine operating costs recognized as reasonable (referred to as section 223 limits for the specific section in the law). Public Law 97-248, the Tax Equity and Fiscal Responsibility Act of 1982 (commonly referred to as TEFRA) expanded previously existing limits to include all other inpatient hospital operating costs. Further, it established a new 3-year Medicare ceiling (or target rate) on the allowable annual rate of increase in operating costs per case for inpatient hospital services. TEFRA also required that HHS develop proposals for the prospective payment of hospitals under Medicare. The proposal from HHS was presented to the Congress at the end of 1982 and became the basis for Public Law 98-21.

The following is a description of the major reimbursement provisions of Public Law 98-21 as amended by Public Law 98-369 (the Deficit Reduction Act of 1984, or DEFRA) and as implemented by final rules issued January 3, 1984, August 31, 1984, and September 3, 1985. In addition, as indicated below, many of the payment features of PPS have been affected by P.L. 99-107, the Emergency Extension Act of 1985, as amended by P.L. 99-201, which provides that PPS payments from October 1, 1985, through March 14, 1986, be made on the same basis as they were made on September 30, 1985. Thus, the PPS payment rates and the transition percentages are frozen at the fiscal year 1985 levels during this time period. Further on in this appendix is a description of certain changes to the prospective payment system made by law and regulations.

GENERAL SUMMARY

Effective for hospital cost reporting periods that began on or after October 1, 1983, Medicare payment for hospital inpatient services is made according to a prospective payment system, rather than on a reasonable cost basis. Medicare payments are made at predetermined, specific rates which represent the average cost, nationwide, of treating a Medicare patient according to his or her diagnosis. The classification system used to group hospital inpatients according to their diagnoses is known as diagnosis-related groups (DRG's). Separate DRG rates apply depending on whether a hospital is located in an urban or rural area of the country, as determined by the Office of Management and Budget's Metropolitan Statistical Area system. During a 3-year transition period, a declining portion of the total prospective payment is based on a hospital's historical reasonable costs and an increasing portion is based on a combination of regional and national Federal DRG rates. In the fourth year of the program (fiscal year 1987) and thereafter, medicare payments are determined totally under a national DRG payment methodology. As noted below, this transition schedule has been altered by Public Law 99-107, the Emergency Extension Act of 1985, as amended by Public Law 99-201.

---

[1] This appendix draws heavily from two Congressional Research Service Issue Briefs: "Medicare: Prospective Payments for Inpatient Hospital Services" and "Medicare: Physician Payments."

If a hospital can treat a patient for less than the payment amount, it can keep the savings. If the treatment costs more, the hospital must absorb the loss. A hospital is prohibited from charging Medicare beneficiaries any amounts (except for deductibles, coinsurance amounts, and services not covered by Medicare) which represent any difference between the hospital's cost of providing covered care and the Medicare DRG payment amount. A hospital may charge for medically unnecessary services and custodial care furnished to beneficiaries who elect to stay in the hospital at a time beginning more than 2 days after the beneficiary has been notified that inpatient hospital care is no longer required.

Certain hospital costs are excluded from the prospective payment system and are paid on a reasonable cost basis. In addition, certain hospitals are excluded from the new system and are reimbursed on a reasonable cost basis, subject to the rate of increase limits provided in TEFRA. Authority is provided for States to establish their own hospital payment systems if they meet certain Federal requirements.

PROSPECTIVE PAYMENT SYSTEM

Unless excluded from the prospective payment system, all Medicare participating hospitals are paid a specific amount for inpatient services provided to Medicare beneficiaries based on the patient's classification into one of 468 DRG's. Separate DRG rates apply to hospitals located in urban or rural areas of the country as determined by OMB's Metropolitan Statistical Area system (urban rates are higher than rural rates). The Secretary, through regulations issued September 3, 1985 expanded the number of DRG's to 471. Hospitals located in areas reclassified from urban to rural are allowed a 2-year transition to rural rates. In addition, the DRG rates are adjusted for area differences in hospitals wage levels compared to the national average hospital wage level.

Transition period

Application of the DRG payment rates (urban and rural) has been phased in over a 3-year transition period, starting with each hospital's first cost reporting period which began on or after October 1, 1983. During the transition period, a hospital's payment rate is a combination of the Federal DRG payment rates and a hospital's historical costs; in addition, during the transition, the Federal DRG portion of the rate is based on a combination of national rates and regional rates for each of the nine census regions of the country. (See table 1.) Thus, during the first year of the program (fiscal year 1984), 25 percent of the prospective payment was based on Federal DRG rates (100 percent regional) and 75 percent was based on each hospital's cost base. In the second year (fiscal year 1985), 50 percent of the payment was based on a combination of national and regional Federal DRG rates (25 percent national, 75 percent regional) and 50 percent was based on each hospital's cost base. In the third year (fiscal year 1986), 75 percent of the payment is based on a combination of national and regional Federal DRG rates (50 percent national, 50 percent regional) and 25 percent is based on each hospital's cost base. However, Public Law 99-107, the Emergency Extension Act of 1985, amended current law to provide that the payment rates and transition percentages in effect on September 30, 1985 should remain in effect for a further 45-day period, through November 14, 1985. Public Law 99-155 extended this requirement through December 14, 1985; Public Law 99-181 extended the requirement through December 18, 1985; Public Law 99-189 extended the requirement through December 19, 1985; and Public Law 99-201 extended the requirement through March 14, 1986. This means that PPS payment rates are based on 50 percent hospital specific and 50 percent Federal DRG through March 14, 1986. For the remainder of fiscal year 1986, 75 percent of the payment would be based on a combination of national and regional DRG rates and 25 percent on the hospital's own costs. In the fourth year (fiscal year 1987), 100 percent of the payment will be determined under the national Federal DRG payament methodology.

TABLE 1.—PHASE-IN SCHEDULE FOR THE NATIONAL FEDERAL DRG PAYMENT RATES

Fiscal year [1]	Hospital specific portion (percent)	Federal DRG portion
1984	75	25 percent (0 percent national plus 100 percent regional).
1985	50	50 percent (25 percent national plus 75 percent regional).[2]
1986	25	75 percent (50 percent national plus 50 percent regional).[2]
1987	0	100 percent (100 percent national plus 0 percent regional).

---

[1] The hospital specific portion (HSP) amount and the proportional shares of the HSP and the Federal DRG amount change with the beginning of the hospital's fiscal year. The Federal (national and regional) rates and their proportional shares change with the beginning of the Federal fiscal year.

[2] The transition percentages in effect for 1985 will continue through March 14, 1986, because of Public Law 99-107, the Emergency Extension Act, as amended by Public Law 99-201.

DRG payment levels and updating

The payment rates for each DRG were derived from an average of historical (1981) Medicare cost data for each hospital. The rates were updated through fiscal year 1983 by the estimated actual rate of increase in hospital costs nationally. By law, the rates were increased for fiscal year 1984 by the estimated annual increase in a market basket index representing the cost of goods and services purchased by hospitals, plus 1 percentage point. For fiscal year 1985, DEFRA provided that the rate of increase was the increase in the market basket, plus one-quarter of 1 percentage point. For fiscal years 1984 and 1985, the DRG rates were adjusted so that the total payments under the prospective system equaled the payments which would have been made under the reasonable cost reimbursement provisions of prior law as limited by the target rate of increase provisions established by TEFRA (this requirement is known as "budget neutrality").

The market basket is defined in table 2. This is a uniform index for all hospitals and yields one price inflator for all hospitals in a given year. The relative importance of the different categories of cost changes periodically.

TABLE 2.—HOSPITAL PROSPECTIVE REIMBURSEMENT INPUT PRICE INDEX (THE "MARKET BASKET")

Category of costs [1]	Relative importance, 1981 [2]	Price variable used
1. Wages and salaries	56.53	Percentage change in average hourly earnings of hospital industry workers (SIC 806).
2. Employee benefits	8.16	Percentage change in supplements to wages and salaries per worker in nonagricultural establishments.
3. Professional fees, other (legal, auditing, consulting, etc.).	0.56	Percentage change in hourly earnings index for production or nonsupervisory workers on private nonagricultural payrolls, total private.
4. Malpractice insurance	2.12	Percentage change in hospital malpractice insurance premiums.
5. Food	3.32	(a) Percentage change in food and beverages component of Consumer Price Index, All Urban (relative importance, 1.71). (b) Percentage change in processed foods and feeds component of Producer Price Index (relative importance, 1.61).
6. Fuel and other utilities	3.52	(a) Percentage change in implicit price deflator—consumption of fuel oil and coal (derived from fuel oil component of Consumer Price Index) (relative importance, 1.73). (b) Percentage change in implicit price deflator—consumption of electricity (derived from electricity component of Consumer Price Index) (relative importance, 0.80).

TABLE 2.—HOSPITAL PROSPECTIVE REIMBURSEMENT INPUT PRICE INDEX (THE "MARKET BASKET")—Continued

Category of costs [1]	Relative importance, 1981 [2]	Price variable used
		(c) Percentage change in implicit price deflator for natural gas, derived from utility (piped) gas component of Consumer Price Index (relative importance, 0.67).
		(d) Percentage change in water and sewerage maintenance component of Consumer Price Index (relative importance, 0.32).
7. Drugs	2.61	Percentage change in pharmaceutical preparations, ethical component of Producer Price Index.
8. Chemicals and cleaning products.	2.17	Percentage change in chemicals and allied products components of Producer Price Index.
9. Surgical and medical instruments and supplies.	2.09	Percentage change in special industry machinery and equipment component of Producer Price Index.
10. Rubber and miscellaneous plastics.	1.73	Percentage change in rubber and plastic products component of Producer Price Index.
11. Business travel and motor freight.	1.84	Percentage change in transportation component of Consumer Price Index. All Urban.
12. Apparel and textiles	1.45	Percentage change in textile products and apparel component of Producer Price Index.
13. Business services	5.00	Percentage change in services component of Consumer Price Index. All Urban.
14. All other miscellaneous expenses. [3]	8.90	Percentage change of Consumer Price Index for all items. All Urban.
Total	100.00	

[1] Costs not within the scope of the limits (i.e. capital, medical education, and medical professional fees) were excluded in deriving the input price index.

[2] A Laspeyres price index was constructed using 1977 base value weights and the price variables indicated in the table. Base value weights (cost shares) were derived from special studies by the Health Care Financing Administration using primarily data from the American Hospital Association and the Interindustry Economics Division of the Bureau of Economic Analysis, U.S. Department of Commerce. In 1977 each price variable has an index value of 100.00. The "relative importance" changes over time in accordance with price changes for each variable. Cost categories with relatively higher price increases get higher relative importance values and vice versa. For an explanation of the basic methodology used, see Freeland, Mark S., Anderson, Gerard, and Schendler, Carol Ellen, "National Hospital Input Price Index," Health Care Financing Review, Summer 1979, pp. 37-61.

[3] This is a residual category of costs not included in the 13 specific categories above. It consists primarily of miscellaneous and unallocated items.

Source: 48 F.R. 39845-39846, Sept. 1, 1983.

For each fiscal year beginning with fiscal year 1986, the Secretary of HHS is required to determine an appropriate increase in the DRG payments, taking into consideration the recommendations of the Prospective Payment Assessment Commission. However, DEFRA provided that in fiscal year 1986, the increase could not exceed market basket plus one-quarter of a percentage point. Public Law 99-107, the Emergency Extension Act of 1985, amended current law to provide that the payment rates in effect on September 30, 1985 should remain in effect for a further 45-day period, through November 14, 1985. Public Law 99-155 extended this requirement through December 14, 1985; Public Law 99-181 extended the requirement through December 18, 1985; Public Law 99-189 extended it through December 19, 1985; and Public Law 99-201 extended this requirement through March 14, 1986, in effect, a freeze. The Secretary of HHS promulgated final regulations freezing hospital Medicare payments for fiscal year 1986 at the fiscal year 1985 level.

In addition to determining yearly increases in the DRG payment rates for fiscal year 1986 and thereafter, the Secretary is also required to adjust the DRG classification and weighting factors in fiscal year 1986 and at least every 4 years thereafter to reflect changes in treatment patterns, technology, and other factors which may change the relative use of hospital resources.

Additional payment amounts

In addition to the DRG prospective payment rates, Medicare payments are made to hospitals for the following items or services:

Outliers

Additional amounts are paid to hospitals for atypical cases (known as "outliers") which have either extremely long lengths of stay or extraordinarily high costs compared to most discharges classified in the same DRG. The law requires that total outlier payments to hospitals covered by the system represent no less than 5 percent and no more than 6 percent of the total estimated Medicare prospective payments for the fiscal year. The Health Care Financing Administration (HCFA) has reduced the amount of funds available for outlier payments from 5.7 percent of total hospital payments in fiscal year 1984 to 5 percent in fiscal year 1985 and 5 percent in fiscal year 1986. Effective with discharges occurring on or after October 1, 1984, a transferring hospital may qualify for an additional payment for extraordinarily high-cost cases meeting the criteria for cost outliers.

Indirect medical education costs

Additional payments are made to hospitals under the prospective system for the indirect costs of approved medical education programs. These indirect costs may be due to a variety of factors, including the extra demands placed on the hospital staff as a result of the teaching activity or additional tests and procedures that may be ordered by residents. Congressional reports on the PPS authorizing legislation indicate that the indirect medical education payments are also to account for factors not necessarily related to medical education which may increase costs in teaching hospitals, such as more severely ill patients, increased use of diagnostic testing, and higher staff-to-patient ratios. Under PPS, the additional payment to a hospital equals twice the factor used to adjust the cost of increase limits which were applied under Medicare's former cost-based method of reimbursement to hospitals. This results in an 11.59 percent increase to the Federal portion of the hospital's DRG payments for each 0.1 increase in the ratio of the hospital's number of full-time equivalent interns and residents to its number of beds.

Payments on a reasonable cost basis

Costs for certain items are excluded from the prospective payment system and thus are not included in the prospective payment rates. Medicare pays for its share of the following such costs separately from the DRG payment system, according to the former reasonable cost-based system:

Capital-related costs.—Capital-related costs (including depreciation, leases and rentals, interest, and a return on equity for proprietary hospitals) are excluded from the prospective payment system until October 1, 1986 and are paid for on a reasonable cost basis. The Secretary was required to report to Congress within 18 months of enactment (October 1984) on methods and proposals by which capital costs can be included in the prospective payment rates. This report has not yet been submitted. Medicare payment for capital costs is prohibited after September 30, 1986, unless a State has a capital expenditure review agreement with the Secretary (under section 1122 of the Social Security Act) and the State has recommended approval of the specific capital expenditure.

Direct medical education costs.—The direct costs (such as salaries for residents and teachers, and classroom costs) of approved medical education programs are excluded from the prospective payment system and are reimbursed on a reasonable cost basis. Such programs may include the training of physicians, nurses, and paraprofessionals; they may not include on-the-job training, patient education, community health awareness programs, or the costs of interns and residents hired to replace anesthetists.

Physicians in teaching hospitals.—If a teaching hospital so elects, the direct medical and surgical services of physicians in such hospitals will be excluded from the prospective payment system and paid for on the basis of reasonable costs.

Kidney acquisition costs.—The estimated net expenses associated with kidney acquisition in certified renal transplantation centers are excluded from the prospective payment system. Prospective payments to a hospital are adjusted in each reporting period to compensate for the reasonable expenses of kidney acquisition.

Anesthesia services of hospital-employed nonphysician anesthetists.—For the cost reporting periods beginning on or after October 1, 1984, and before October 1, 1987, the costs of anesthesia services provided by qualified nonphysician anesthetists employed by the hospital or obtained under arrangements (e.g., certified registered nurse anesthetists and anesthesiology assistants) are excluded from the prospective payment system and are paid for on the basis of reasonable costs.

Bad debts of Medicare beneficiaries

An additional payment is made to hospitals for bad debts attributable to unpaid deductible and coinsurance amounts related to covered services received by Medicare beneficiaries.

ESRD beneficiary discharges

Effective with cost reporting periods beginning on or after October 1, 1984, additional payments are made to hospitals for inpatient dialysis provided to end stage renal disease (ESRD) beneficiary discharges if such discharges are 10 percent or more of the hospital's total discharges. A hospital meeting the criteria is paid an additional payment for each ESRD beneficiary discharge based on the estimated weekly cost of dialysis and the average length of stay of ESRD beneficiaries for the hospital.

Calculation of payment amount for discharges from October 1, 1984 through March 14, 1986

As noted above, during the fiscal year 1984-86 period, payments to an individual hospital for a specific hospital stay are based on a combination of the appropriate Federal DRG rate and the hospital's specific rate (based on its own cost experience). (See table 1.) The rates in effect for fiscal year 1985 also apply to the period October 1, 1985, through March 14, 1986 because of the requirements Public Law 99-107, as amended by Public Law 99-201.

Determination of the Federal DRG portion of the payment

For fiscal year 1985 and for October 1, 1985, through March 14, 1986, 50 percent of the payment is based on hospital-specific rates and 50 percent is Federal DRG-based. The Federal DRG-based portion is composed of 25 percent national rates and 75 percent regional rates. Over the 3-year transition period, the program will move toward uniform national urban and rural rates, phasing out regional differences.

For fiscal year 1985, the Secretary has promulgated 20 "average adjusted standardized amounts" per Medicare discharge (i.e., an urban amount and a rural amount for each of the nine census regions of the country and for the Nation as a whole). These consist of a labor-related and nonlabor-related component.

TABLE 3.—AVERAGE ADJUSTED STANDARDIZED AMOUNTS FOR DISCHARGES OCCURRING FROM OCT. 1, 1984 THROUGH MAR. 14, 1986, BY CENSUS REGION

[In dollars]

Census region	Urban regional rates			Rural regional rates		
	Total	Labor-related	Nonlabor	Total	Labor-related	Nonlabor
1. New England (CT, ME, MA, NH, RI, VT)	3,122.44	2,453.88	668.56	2,605.26	2,098.04	507.22
2. Middle Atlantic (PA, NJ, NY)	2,866.65	2,205.94	660.71	2,602.61	2,088.21	514,40
3. South Atlantic (DE, DC, FL, GA, MD, NC, SC, VA, WV)	2,909.23	2,296.98	612.25	2,316.89	1,889.46	427.43
4. East North Central (IL, IN, MI, OH, WI)	3,164.68	2,452.00	712.68	2,531.16	2,052.37	478.79
5. East South Central (AL, KY, MS, TN)	2,630.36	2,085.43	544.93	2,305.91	1,905.97	399.94
6. West North Central (IA, KS, MN, MO, NE, ND, SD)	3,025.81	2,391.81	634.00	2,326.24	1,915.33	410.91
7. West South Central (AR, LA, OK, TX)	2,847.86	2,248.19	599.67	2,244.09	1,845.62	398.47
8. Mountain (AZ, CO, ID, MT, NV, NM, UT, WY)	2,845.47	2,208.95	636.52	2,360.42	1,913.21	447.21
9. Pacific (AK, CA, HA, OR, WA)	3,070.47	2,325.13	745.34	2,520.98	1,999.49	526.49
National	2,985.05	2,320.61	664.44	2,381.39	1,943.21	438.18

Source: 49 FR 34777, Aug. 31, 1984.

The *Federal DRG portion* of the payment rate for each hospital is made up of a *national and a regional component* in fiscal year 1985. To determine the *national component*, the labor-related portion of the national standardized amount is multiplied by the appropriate hospital wage index (classified by Metropolitan Statistical Area or Nonmetropolitan Statistical Area). (See "Source and calculation of the hospital wage index" surrounding table 5.) The wage-adjusted labor-related portion is then added to the nonlabor-related portion of the national standardized amount (after adjustment for hospitals located in Alaska and Hawaii). The resulting total for the national amount is multiplied by 25 percent to determine the national portion in fiscal year 1985. To determine the *regional component*, the labor-related portion of the standardized amount for the hospital's region is multiplied by the appropriate wage index, which is then added to the nonlabor-related portion for that region (after adjustment for hospitals located in Alaska and Hawaii). The resulting total for the regional amount is multiplied by 75 percent to determine the regional portion in fiscal year 1985. These two portions are then added together and multiplied by 50 percent to determine the Federal DRG portion in fiscal year 1985.

For an example of how the computation is made, assume that the hospital is located in Washington, DC (urban area of census region 3 with a hospital wage index of 1.1577). The calculation would be made as follows:

—The labor-related portion of the national standardized amount is $2,320.61. This amount is multiplied by the appropriate hospital wage index (i.e., 1.1577) to give a wage-adjusted labor-related component of $2,686.57. The wage-adjusted labor-related portion is added to the national nonlabor portion ($664.44) for a total of $3,351.01. This amount is multiplied by 25 percent, to yield a national portion of $837.75.

—The labor-related portion of the standardized amount for census region 3 is $2,296.98. This amount is multiplied by the wage index (1.1577) to give a wage-adjusted labor-related component of $2,659.21. The wage-adjusted labor-related portion is added to the nonlabor portion for census region 3 ($612.25) for a total of $3,271.46. This amount is multiplied by 75 percent, to yield a regional portion of $2,453.60.

—The national and regional portions are added together ($3,291.35) and multiplied by 50 percent to yield a Federal DRG portion of $1,645.68.

Determination of the hospital-specific portion of the payment

The *hospital-specific portion (HSP)* of the payment rate is based on a hospital's historical cost experience. For the hospital's 1985 cost reporting year, this amount is derived by multiplying the HSP in the prior year by an updating factor which reflects an adjustment to assure budget neutrality, which varies depending on the hospital's cost reporting period. This amount is then multiplied by 50 percent to determine the HSP portion of the payment rate of 1985.

For a particular hospital, the HSP portion of the rate could look like this:

$2,931.12 x 1.06151 x 50 percent = $1,555.71

Determination of total payment

To determine the total payment to the hospital for a particular DRG in fiscal year 1985, the Federal DRG portion of the payment rate ($1,645.68) and the hospital-specific portion of the payment rate ($1,555.71) are added together. For a specific DRG, this total amount ($3,201.39) is multiplied by the relative weight for that particular DRG. (Each of the 468 DRG's has been assigned its own relative weight. Table 3 shows the relative weights for the 25 highest volume DRG's.) To continue with our example, for DRG 88 (chronic obstructive pulmonary disease), which has a weight of 1.0304, the payment rate for the hospital in our example would be:

$3,201.39 x 1.0304= $3,298.71

Also shown on table 4 are the geometric mean length of stay (7.5 days for DRG 88) and the outlier threshold, the day on which outlier payments would begin (day 30 for DRG 88).

BEST COPY AVAILABLE

This methodology is repeated for each DRG case at the hospital to determine total payments to the hospital. Since the DRG weights range from a low of .1823 (for DRG 382, false labor) to a high of 6.7918 (for DRG 457, extensive burns), the payment rates to this particular hospital in 1985 would vary from a low of $583.61 ($3,201.39 x .1823) to a high of $21,743.20 ($3,201.39 x 6.7918).

TABLE 4.—25 HIGHEST VOLUME DIAGNOSIS RELATED GROUPS, FISCAL YEAR 1985

Fiscal year 1985 rank	DRG No.	Description	Relative weight	Geometric mean length of stay	Outlier threshold
1	127	Heart failure and shock	1.0300	7.8	38
2	89	Simple pneumonia and pleurisy [1]	1.0914	8.5	31
3	140	Angina pectoris	.7470	5.5	21
4	182	Esophagitis, gastroenteritis, and miscellaneous digestive disorders [1]	.6121	5.4	22
5	14	Specific cerebrovascular disorders except transient ischemic attacks	1.3386	9.9	32
6	138	Cardiac arrhythmia and conduction disorders [1]	.9200	5.7	27
7	296	Nutritional and miscellaneous metabolic disorders [1]	.8886	7.3	29
8	96	Bronchitis and asthma [1]	.7913	6.9	24
9	243	Medical back problems	.7473	7.5	30
10	88	Chronic obstructive pulmonary disease	1.0304	7.5	30
11	15	Transient ischemic attacks	.6604	5.6	24
12	209	Major joint procedures	2.2674	17.1	39
13	336	Transurethral prostatectomy [1]	.9974	8.4	22
14	174	Gastrointestinal hemorrhage [1]	.9185	6.7	29
15	39	Lens procedures	.4958	2.8	6
16	122	Circulatory disorders with acute myocardial infarction, without cardiovascular complications, discharged alive	1.3509	9.8	32
17	320	Kidney and urinary tract infections [1]	.8039	7.0	29
18	468	Unrelated operating room procedure	2.0818	11.2	33
19	210	Hip and femur procedures except major joint [1]	2.0617	17.8	40
20	121	Circulatory disorders with acute myocardial infarction and cardiovascular complications, discharged alive	1.8454	11.9	34
21	294	Diabetes, age over 35	.8003	7.7	30
22	87	Pulmonary edema and respiratory failure	1.5368	7.7	30
23	148	Major small and large bowel procedures [1]	2.5228	17.0	39
24	410	Chemotherapy	.3490	2.6	12
25	82	Respiratory neoplasms	1.1282	7.4	29

[1] Age over 69 and/or complicating conditions.

Source: 49 F.R. 34780–34790, Aug. 31, 1984. Fiscal year 1985 rank from Health Care Financing Administration prospective payment system monitoring tables using preliminary data based on bill records received and processed in HCFA central office through September 27, 1985.

Source and calculation of the hospital wage index

The hospital wage index is used to adjust a hospital's DRG payment for the wage level of the hospital's area. This is accomplished by multiplying the published labor-related components of the Federal portion of the payment rates by a wage index. The wage index is intended to measure the average wage level for hospital workers in each urban area (metropolitan statistical area or MSA) or rural area (non-MSA parts of States) relative to the national average wage level. The index is based on compensation and employment

data for hospital workers as reported to the Bureau of Labor Statistics in the U.S. Department of Labor by county.

The calculation of the index begins with the area average hospital wage and salary amount. For each MSA or non-MSA (all non-MSA counties in a State) area, county total compensation and total employment data are summed separately over all constituent counties in the area (e.g., all counties included in a particular MSA). Then aggregate hospital compensation for the area is divided by aggregate hospital employment in the area to produce the area average wage and salary amount. The hospital wage index is calculated by dividing the average wage and salary amount for each area by the national average wage and salary amount (determined by summing the area amounts over all areas and dividing the sum by the number of areas).

This procedure results in an index number, such as .9503 (Asheville, NC) or 1.2061 (Sacramento, CA) for each MSA or non-MSA area in the United States. Since the national average wage level is represented by an index value of 1.000, the wage index value for any area has a direct and simple interpretation. The value of 1.2875 for Sacramento means that average wage and salary compensation per employee is 20.61 percent higher in the Sacramento MSA than the national average compensation per employee. Thus, in computing the Federal portion of the hospital payment rates applicable for hospitals in the Sacramento MSA, the labor-related components of the urban adjusted standardized payment amounts (national: $2,320.61 and region 9: $2,325.13) would be multiplied by 1.2061 in order to adjust for the higher level (20.61 percent) of employee compensation in this area. Similarly, the calculation of the Federal portion of the rates for hospitals in an area such as Asheville would involve a reduction in the published labor-related components of the national and regional (region 3) adjusted standardized payment amounts, to reflect the fact that average wage levels in this MSA are 4.97 percent lower than the national average (as indicated by the wage index value of .9503).

The Deficit Reduction Act of 1984 required the Department to conduct a study to develop an appropriate wage index, taking into account wage differences of full-time and part-time employees. If changes were made to the wage index as a result of this study, the Secretary was required to make retroactive adjustments to the PPS payment amounts for hospital cost reporting periods beginning on or after October 1, 1983. The Department surveyed hospitals subject to PPS to obtain new wage and employment data, and submitted a report to Congress on March 29, 1985, describing two new wage indexes developed from this data. In final PPS regulations published September 3, 1985 (50 FR 35645), HHS proposed to implement one of these indexes, the "gross wage index," effective October 1, 1985. However, P.L. 99-107, as amended by P.L. 99-201, precludes any changes in the PPS payment rates or methodology through March 14, 1986. Consequently, the new wage index has not been implemented.

TABLE 5.—WAGE INDEX FOR URBAN AREAS

Urban area (constituent counties or county equivalents)	Wage index
Abilene, TX (Taylor, TX)	.9395
Akron, OH (Portage, OH, Summit, OH)	1.0713
Albany, GA (Dougherty, GA, Lee, GA)	.8807
Albany-Schenectady-Troy, NY (Albany, NY, Greene, NY, Montgomery, NY, Rensselaer, NY, Saratoga, NY, Schenectady, NY)	.8907
Albuquerque, NM (Bernalillo, NM)	1.0558
Alexandria, LA (Rapides, LA)	.8718
Allentown-Bethlehem, PA-NJ (Warren, NJ, Carbon, PA, Lehigh, PA, Northampton, PA)	1.0499
Alton-Granite City, IL (Jersey, IL, Madison, IL)	.9609
Altoona, PA (Blair, PA)	1.0226
Amarillo, TX (Potter, TX, Randall, TX)	.9877
Anaheim-Santa Ana, CA (Orange, CA)	1.2419
Anchorage, AK (Anchorage, AK)	1.5417
Anderson, IN (Madison, IN)	1.0142
Anderson, SC (Anderson, SC)	.8729
Ann Arbor, MI (Washtenaw, MI)	1.2085
Anniston, AL (Calhoun, AL)	.8808
Appleton-Oshkosh-Neenah, WI (Calumet, WI, Outagamie, WI, Winnebago, WI)	.9844
Asheville, NC (Buncombe, NC)	.9503
Athens, GA (Clarke, GA, Jackson, GA, Madison, GA, Oconee, GA)	.8600
Atlanta, GA (Barrow, GA, Butts, GA, Cherokee, GA, Clayton, GA, Cobb, GA, Coweta, GA, De Kalb, GA, Douglas, GA, Fayette, GA, Forsyth, GA, Fulton, GA, Gwinnett, GA, Henry, GA, Newton, GA, Paulding, GA, Rockdale, GA, Spalding, GA, Walton, GA)	.9395
Atlantic City, NJ (Atlantic, NJ, Cape May, NJ)	1.0827
Augusta, GA-SC (Columbia, GA, McDuffie, GA, Richmond, GA, Aiken, SC)	.9595
Aurora-Elgin, IL (Kane, IL, Kendall, IL)	.9837
Austin, TX (Hays, TX, Travis, TX, Williamson, TX)	1.0631
Bakersfield, CA (Kern, CA)	1.2248
Baltimore, MD (Anne Arundel, MD, Baltimore, MD, Baltimore City, MD, Carroll, MD, Harford, MD, Howard, MD, Queen Annes, MD)	1.0920
Bangor, ME (Penobscot, ME)	.9253
Baton Rouge, LA (Ascension, LA, East Baton Rouge, LA, Livingston, LA, West Baton Rouge, LA)	1.0154
Battle Creek, MI (Calhoun, MI)	1.0578
Beaumont-Port Arthur, TX (Hardin, TX, Jefferson, TX, Orange, TX)	.9854
Beaver County, PA (Beaver, PA)	1.0841
Bellingham, WA (Whatcom, WA)	1.0522
Benton Harbor, MI (Berrien, MI)	.8716
Bergen-Passaic, NJ (Bergen, NJ, Passaic, NJ)	1.0369
Billings, MT (Yellowstone, MT)	.9626
Biloxi-Gulfport, MS (Hancock, MS, Harrison, MS)	.8692
Binghamton, NY (Broome, NY, Tioga, NY)	.9507
Birmingham, AL (Blount, AL, Jefferson, AL, Saint Clair, AL, Shelby, AL, Walker, AL)	1.0028
Bismarck, ND (Burleigh, ND, Morton, ND)	1.0080
Bloomington, IN (Monroe, IN)	.8269
Bloomington-Normal, IL (McLean, IL)	1.0098
Boise City, ID (Ada, ID)	1.0733
Boston-Lawrence-Salem-Lowell-Brockton, MA (Essex, MA, Middlesex, MA, Norfolk, MA, Plymouth, MA, Suffolk, MA)	1.0927
Boulder-Longmont, CO (Boulder, CO)	.9952
Bradenton, FL (Manatee, FL)	.9180
Brazoria, TX (Brazoria, TX)	.8382
Bremerton, WA (Kitsap, WA)	.8972
Bridgeport-Stamford-Norwalk-Danbury, CT (Fairfield, CT)	1.1548
Brownsville-Harlingen, TX (Cameron, TX)	.9188
Bryan-College Station, TX (Brazos, TX)	.8059
Buffalo, NY (Erie, NY)	.9788
Burlington, NC (Alamance, NC)	.8463
Burlington, VT (Chittenden, VT, Grand Isle, VT)	.9632
Canton, OH (Carroll, OH, Stark, OH)	.9778
Casper, WY (Natrona, WY)	1.0235
Cedar Rapids, IA (Linn, IA)	.8360
Champaign-Urbana-Rantoul, IL (Champaign, IL)	1.0224
Charleston, SC (Berkeley, SC, Charleston, SC, Dorchester, SC)	1.0241
Charleston, WV (Kanawha, WV, Putnam, WV)	1.1011
Charlotte-Gastonia-Rock Hill, NC-SC (Cabarrus, NC, Gaston, NC, Lincoln, NC, Mecklenburg, NC, Rowan, NC, Union, NC, York, SC)	.9756
Charlottesville, VA (Albemarle, VA, Charlottesville City, VA, Fluvanna, VA, Greene, VA)	1.2699
Chattanooga, TN-GA (Catoosa, GA, Dade, GA, Walker, GA, Hamilton, TN, Marion, TN, Sequatchie, TN)	.8880
Chicago, IL (Cook, IL, Du Page, IL, McHenry, IL)	1.2240
Chico, CA (Butte, CA)	1.0536
Cincinnati, OH-KY-IN (Dearborn, IN, Boone, KY, Campbell, KY, Kenton, KY, Clermont, OH, Hamilton, OH, Warren, OH)	1.0543
Clarksville-Hopkinsville, TN-KY (Christian, KY, Montgomery, TN)	.8325
Cleveland, OH (Cuyahoga, OH, Geauga, OH, Lake, OH, Medina, OH)	1.2004
Colorado Springs, CO (El Paso, CO)	1.1048
Columbia, MO (Boone, MO)	1.1334
Columbia, SC (Lexington, SC, Richland, SC)	.8583
Columbus, GA-AL (Russell, AL, Chattahoochee, GA, Muscogee, GA)	.9180
Columbus, OH (Delaware, OH, Fairfield, OH, Franklin, OH, Licking, OH, Madison, OH, Pickaway, OH, Union, OH)	1.0402
Corpus Christi, TX (Nueces, TX, San Patricio, TX)	.9628
Cumberland, MD-WV (Allegany, MD, Mineral, WV)	.8697
Dallas, TX (Collins, TX, Dallas, TX, Denton, TX, Ellis, TX, Kaufman, TX, Rockwall, TX)	1.0788
Danville, VA (Danville City, VA, Pittsylvania, VA)	.8882
Davenport-Rock Island-Moline, IA-IL (Scott, IA, Henry, IL, Rock Island, IL)	.9818
Dayton-Springfield, OH (Clark, OH, Greene, OH, Miami, OH, Montgomery, OH)	1.1095
Daytona Beach, FL (Volusia, FL)	.9673
Decatur, IL (Macon, IL)	.9611
Denver, CO (Adams, CO, Arapahoe, CO, Denver, CO, Douglas, CO, Jefferson, CO)	1.2078
Des Moines, IA (Dallas, IA, Polk, IA, Warren, IA)	1.0687
Detroit, MI (Lapeer, MI, Livingston, MI, Macomb, MI, Monroe, MI, Oakland, MI, Saint Clair, MI, Wayne, MI)	1.1945
Dothan, AL (Dale AL, Houston, AL)	.8830
Dubuque, IA (Dubuque, IA)	1.0200
Duluth, MN-WI (St. Louis, MN, Douglas, WI)	.9148
East St. Louis-Belleville, IL (Clinton, IL, St. Clair, IL)	.9489
Eau Claire, WI (Chippewa, WI, Eau Claire, WI)	.9549
El Paso, TX (El Paso, TX)	.8973
Elkhart-Goshen, IN (Elkhart, IN)	.8907
Elmira, NY (Chemung, NY)	1.0296
Enid, OK (Garfield, OK)	.9000
Erie, PA (Erie, PA)	.9906
Eugene-Springfield, OR (Lane, OR)	.9662
Evansville, IN-KY (Posey, IN, Vanderburgh, IN, Warrick, IN, Henderson, KY)	1.0247
Fargo-Moorhead, ND-MN (Clay, MN, Cass, ND)	1.0031
Fayetteville, NC (Cumberland, NC)	.9311
Fayetteville-Springdale, AR (Washington, AR)	.8290
Flint, MI (Genesee, MI)	1.1500
Florence, AL (Colbert, AL, Lauderdale, AL)	.8072
Florence, SC (Florence, SC)	.8055

TABLE 5.—WAGE INDEX FOR URBAN AREAS—Continued

Urban area (constituent counties or county equivalents)	Wage index
Fort Collins-Loveland, CO (Larimer, CO)	.9259
Fort Lauderdale-Hollywood-Pompano Beach, FL (Broward, FL)	1.1062
Fort Myers-Cape Coral, FL (Lee, FL)	.9223
Fort Pierce, FL (Martin, FL, St. Lucie, FL)	.9623
Fort Smith, AR-OK (Crawford, AR, Sebastian, AR, Sequoyah, OK)	.9005
Fort Walton Beach, FL (Okaloosa, FL)	.7657
Fort Wayne, IN (Allen, IN, De Kalb, IN, Whitley, IN)	.9348
Fort Worth-Arlington, TX (Johnson, TX, Parker, TX, Tarrant, TX)	.9826
Fresno, CA (Fresno, CA)	1.1927
Gadsden, AL (Etowah, AL)	.9216
Gainesville, FL (Alachua, FL, Bradford, FL)	.9690
Galveston-Texas City, TX (Galveston, TX)	1.1798
Gary-Hammond, IN (Lake, IN, Porter, IN)	1.1395
Glenns Falls, NY (Warren, NY, Washington, NY)	.8795
Grand Forks, ND (Grand Forks, ND)	.9673
Grand Rapids, MI (Kent, MI, Ottawa, MI)	.9963
Great Falls, MT (Cascade, MT)	1.0266
Greeley, CO (Weld, CO)	1.0807
Green Bay, WI (Brown, WI)	.9783
Greensboro-Winston-Salem-High Point, NC (Davidson, NC, Davie, NC, Forsyth, NC, Guilford, NC, Randolph, NC, Stokes, NC, Yadkin, NC)	.9658
Greenville-Spartanburg, SC (Greenville, SC, Pickens, SC, Spartanburg, SC)	.9455
Hagerstown, MD (Washington, MD)	.9635
Hamilton-Middletown, OH (Butler, OH)	1.0414
Harrisburg-Lebanon-Carlisle, PA (Cumberland, PA, Dauphin, PA, Lebanon, PA, Perry, PA)	1.0335
Hartford-New Middletown-Britain-Bristol, CT (Hartford, CT, Litchfield, CT, Middlesex, CT, Tolland, CT)	1.0670
Hickory, NC (Alexander, NC, Burke, NC, Catawba, NC)	.9484
Honolulu, HI (Honolulu, HI)	1.1448
Houma-Thibodaux, LA (Lafourche, LA, Terrebonne, LA)	.9766
Houston, TX (Fort Bend, TX, Harris, TX, Liberty, TX, Montgomery, TX, Waller, TX)	1.1097
Huntington-Ashland, WV-KY-OH (Boyd, KY, Carter, KY, Greenup, KY, Lawrence, OH, Cabell, WV, Wayne, WV)	.9830
Huntsville, AL (Madison, AL)	.8972
Indianapolis, IN (Boone, IN, Hamilton, IN, Hancock, IN, Hendricks, IN, Johnson, IN, Marion, IN, Morgan, IN, Shelby, IN)	1.0786
Iowa City, IA (Johnson, IA)	1.1400
Jackson, MI (Jackson, MI)	1.0260
Jackson, MS (Hinds, MS, Madison, MS, Rankin, MS)	.9092
Jacksonville, FL (Clay, FL, Duval, FL, Nassau, FL, St. Johns, FL)	.9804
Jacksonville, NC (Onslow, NC)	.8800
Janesville-Beloit, WI (Rock, WI)	.9022
Jersey City, NJ (Hudson, NJ)	1.0890
Johnson City-Kingsport-Bristol, TN-VA (Carter, TN, Hawkins, TN, Sullivan, TN, Unicoi, TN, Washington, TN, Bristol City, VA, Scott, VA, Washington, VA)	.9221
Johnstown, PA (Cambria, PA, Somerset, PA)	1.0293
Joliet, IL (Grundy, IL, Will, IL)	1.1024
Joplin, MO (Jasper, MO, Newton, MO)	.9580
Kalamazoo, MI (Kalamazoo, MI)	1.2244
Kankakee, IL (Kankakee, IL)	.9125
Kansas City, KS-MO (Johnson, KS, Leavenworth, KS, Miami, KS, Wyandotte, KS, Cass, MO, Clay, MO, Jackson, MO, Lafayette, MO, Platte, MO, Ray, MO)	.9861
Kenosha, WI (Kenosha, WI)	1.0786
Killeen-Temple, TX (Bell, TX, Coryell, TX)	.9383
Knoxville, TN (Anderson, TN, Blount, TN, Grainger, TN, Jefferson, TN, Knox, TN, Sevier, TN, Union, TN)	.9146
Kokomo, IN (Howard, IN, Tipton, IN)	1.0096
LaCrosse, WI (LaCrosse, WI)	.9543
Lafayette, LA (Lafayette, LA, St. Martin, LA)	1.0141
Lafayette, IN (Tippecanoe, IN)	.9240
Lake Charles, LA (Calcasieu, LA)	.9921
Lake County, IL (Lake, IL)	1.1081
Lakeland-Winter Haven, FL (Polk, FL)	.9257
Lancaster, PA (Lancaster, PA)	1.0351
Lansing-East Lansing, MI (Clinton, MI, Eaton, MI, Ingham, MI)	1.0493
Laredo, TX (Webb, TX)	.8544
Las Cruces, NM (Dona Ana, NM)	.8438
Las Vegas, NV (Clark, NV)	1.2106
Lawrence, KS (Douglas, KS)	.9778
Lawton, OK (Comanche, OK)	.9257
Lewiston-Auburn, ME (Androscoggin, ME)	.9149
Lexington-Fayette, KY (Bourbon, KY, Clark, KY, Fayette, KY, Jessamine, KY, Scott, KY, Woodford, KY)	.9555
Lima, OH (Allen, OH, Auglaize, OH)	.9667
Lincoln, NE (Lancaster, NE)	.9998
Little Rock-North Little Rock, AR (Faulkner, AR, Lonoke, AR, Pulaski, AR, Saline, AR)	1.0162
Longview-Marshall, TX (Gregg, TX, Harrison, TX)	.8544
Lorain-Elyria, OH (Lorain, OH)	1.0528
Los Angeles-Long Beach, CA (Los Angeles, CA)	1.3010
Louisville, KY-IN (Clark, IN, Floyd, IN, Harrison, IN, Bullitt, KY, Jefferson, KY, Oldham, KY, Shelby, KY)	1.0832
Lubbock, TX (Lubbock, TX)	1.0067
Lynchburg, VA (Amherst, VA, Campbell, VA, Lynchburg City, VA)	.9221
Macon-Warner Robins, GA (Bibb, GA, Houston, GA, Jones, GA, Peach, GA)	.9630
Madison, WI (Dane, WI)	1.0621
Manchester-Nashua, NH (Hillsboro, NH, Merrimack, NH)	.9327
Mansfield, OH (Richland, OH)	.9158
McAllen-Edinburg-Mission, TX (Hidalgo, TX)	.8438
Medford, OR (Jackson, OR)	.9833
Melbourne-Titusville, FL (Brevard, FL)	.9314
Memphis, TN-AR-MS (Crittenden, AR, De Soto, MS, Shelby, TN, Tipton, TN)	1.0744
Miami-Hialeah, FL (Dade, FL)	1.1468
Middlesex-Somerset-Hunterdon, NJ (Hunterdon, NJ, Middlesex, NJ, Somerset, NJ)	1.0611
Midland, TX (Midland, TX)	1.0761
Milwaukee, WI (Milwaukee, WI, Ozaukee, WI, Washington, WI, Waukesha, WI)	1.0419
Minneapolis-St. Paul, MN-WI (Anoka, MN, Carver, MN, Chisago, MN, Dakota, MN, Hennepin, MN, Isanti, MN, Ramsey, MN, Scott, MN, Washington, MN, Wright, MN, St. Croix, WI)	1.0250
Mobile, AL (Baldwin, AL, Mobile, AL)	.9311
Modesto, CA (Stanislaus, CA)	1.0773
Monmouth-Ocean, NJ (Monmouth, NJ, Ocean, NJ)	.9643
Monroe, LA (Ouachita, LA)	.9531
Montgomery, AL (Autauga, AL, Elmore, AL, Montgomery, AL)	.9706
Muncie, IN (Delaware, IN)	.9673
Muskegon, MI (Muskegon, MI)	.9216
Naples, FL (Collier, FL)	1.1170
Nashville, TN (Cheatham, TN, Davidson, TN, Dickson, TN, Robertson, TN, Rutherford, TN, Sumner, TN, Williamson, TN, Wilson, TN)	1.2232
Nassau-Suffolk, NY (Nassau, NY, Suffolk, NY)	1.2068
New Bedford-Fall River-Attleboro, MA (Bristol, MA)	.9643
New Haven-West Haven-Waterbury-Meriden, CT (New Haven, CT)	1.0645
New London-Norwich, CT (New London, CT)	1.0646
New Orleans, LA (Jefferson, LA, Orleans, LA, St. Bernard, LA, St. Charles, LA, St. John The Baptist, LA, St. Tammany, LA)	1.0115
New York, NY (Bronx, NY, Kings, NY, New York City, NY, Putnam, NY, Queens, NY, Richmond, NY, Rockland, NY, Westchester, NY)	1.3629

TABLE 5.—WAGE INDEX FOR URBAN AREAS—Continued

Urban area (constituent counties or county equivalents)	Wage index
Newark, NJ (Essex, NJ, Morris, NJ, Sussex, NJ, Union, NJ)	1.1265
Niagara Falls, NY (Niagara, NY)	.8723
Norfolk-Virginia Beach-Newport News, VA (Chesapeake City, VA, Gloucester, VA, Hampton City, VA, James City Co., VA, Newport News City, VA, Norfolk City, VA, Poquoson, VA, Portsmouth City, VA, Suffolk City, VA, Virginia Beach City, VA, Williamsburg City, VA, York, VA)	.8763
Oakland, CA (Alameda, CA, Contra Costa, CA)	1.2590
Ocala, FL (Marion, FL)	1.0080
Odessa, TX (Ector, TX)	.9756
Oklahoma City, OK (Canadian, OK, Cleveland, OK, Logan, OK, McClain, OK, Oklahoma, OK, Pottawatomie, OK)	1.0502
Olympia, WA (Thurston, WA)	1.0543
Omaha, NE-IA (Pottawattamie, IA, Douglas, NE, Sarpy, NE, Washington, NE)	.8982
Orange County, NY (Orange, NY)	1.0041
Orlando, FL (Orange, FL, Osceola, FL, Seminole, FL	1.0125
Owensboro, KY (Daviess, KY)	.8809
Oxnard-Ventura, CA (Ventura, CA)	1.1982
Panama City, FL (Bay, FL)	.9022
Parkersburg-Marietta, WV-OH (Washingtron, OH, Wood, WV)	.9933
Pascagoula, MS (Jackson, MS)	1.0118
Pensacola, FL (Escambia, FL, Santa Rosa, FL)	.9092
Peoria, IL (Peoria, IL, Tazewell, IL, Woodford, IL)	1.1269
Philadelphia, PA-NJ (Burlington, NJ, Camden, NJ, Gloucester, NJ, Bucks, PA, Chester, PA, Delaware, PA, Montgomery, PA, Philadelphia, PA)	1.1736
Phoenix, AZ (Maricopa, AZ)	1.1099
Pine Bluff, AR (Jefferson, AR)	.8757
Pittsburgh, PA (Allegheny, PA, Fayette, PA, Washington, PA, Westmoreland, PA)	1.1364
Pittsfield, MA (Berkshire, MA)	.9795
Portland, ME (Cumberland, ME, Sagadahoc, ME, York, ME)	.9632
Portland, OR (Clackamas, OR, Multnomah, OR, Washington, OR, Yamhill, OR)	1.1172
Portsmouth-Dover-Rochester, NH (Rockingham, NH, Strafford, NH)	.8438
Poughkeepsie, NY (Dutchess, NY)	1.0897
Providence-Pawtucket-Woonsocket, RI (Bristol, RI, Kent, RI, Newport, RI, Providence, RI, Statewide, RI, Washington, RI)	.9753
Provo-Orem, UT (Utah, UT)	.9452
Pueblo, CO (Pueblo, CO)	1.1576
Racine, WI (Racine, WI)	1.0124
Raleigh-Durham, NC (Durham, NC, Franklin, NC, Orange, NC, Wake, NC)	1.0118
Reading, PA (Berks, PA)	1.0265
Redding, CA (Shasta, CA)	1.0522
Reno, NV (Washoe, NV)	1.2962
Richland-Kennewick, WA (Benton, WA, Franklin, WA)	.9526
Richmond-Petersburg, VA (Charles City Co., VA, Chesterfield, VA, Colonial Heights City, VA, Dinwiddie, VA, Goochland, VA, Hanover, VA, Henrico, VA, Hopewell City, VA, New Kent, VA, Petersburg City, VA, Powhatan, VA, Prince George, VA, Richmond City, VA)	.9281
Riverside-San Bernardino, CA (Riverside, CA, San Bernardino, CA)	1.1729
Roanoke, VA (Botetourt, VA, Roanoke, VA, Roanoke City, VA, Salem City, VA)	.9998
Rochester, MN (Olmsted, MN)	1.0235
Rochester, NY (Livingston, NY, Monroe, NY, Ontario, NY, Orleans, NY, Wayne, NY)	1.0357
Rockford, IL (Boone, IL, Winnebago, IL)	1.0323
Sacramento, CA (Eldorado, CA, Placer, CA, Sacramento, CA, Yolo, CA)	1.2061
Saginaw-Bay City-Midland, MI (Bay, MI, Midland,	[illegible]
St. Cloud, MN (Benton, MN, Sherburne, MN, Stearns, MN)	.8788
St. Joseph, MO (Buchanan, MO)	.9856
St. Louis, MO-IL (Monroe, IL, Franklin, MO, Jefferson, MO, St. Charles, MO, St. Louis, MO, St. Louis City, MO)	1.0694
Salem, OR (Marion, OR, Polk, OR)	1.0559
Salinas-Seaside-Monterey, CA (Monterey, CA)	1.2737
Salt Lake City-Ogden, UT (Davis, UT, Salt Lake, UT, Weber, UT)	.9649
San Angelo, TX (Tom Green, TX)	.9269
San Antonio, TX (Bexar, TX, Comal, TX, Guadalupe, TX)	1.0488
San Diego, CA (San Diego, CA)	1.1873
San Francisco, CA (Marin, CA, San Francisco, CA, San Mateo, CA)	1.3946
San Jose, CA (Santa Clara, CA)	1.2928
Santa Barbara-Santa Maria-Lompoc, CA (Santa Barbara, CA)	1.1094
Santa Cruz, CA (Santa Cruz, CA)	1.1363
Santa Fe, NW (Los Alamos, NM, Santa Fe, NM)	1.0089
Santa Rosa-Petaluma, CA (Sonoma, CA)	1.1808
Sarasota, FL (Sarasota, FL)	.9859
Savannah, GA (Chatham, GA, Effingham, GA)	.9501
Scranton/Wilkes Barre, PA (Columbia, PA, Lackawanna, PA, Luzerne, PA, Monroe, PA, Wyoming, PA)	.9742
Seattle, WA (King, WA, Snohomish, WA)	1.0859
Sharon, PA (Mercer, PA)	.9640
Sheboygan, WI (Sheboygan, WI)	.8574
Sherman-Denison, TX (Grayson, TX)	.8997
Shreveport, LA (Bossier, LA, Caddo, LA)	1.0634
Sioux City, IA-NE (Woodbury, IA, Dakota, NE)	1.0301
Sioux Falls, SD (Minnehaha, SD)	.9428
South Bend-Mishawaka, IN (St. Joseph, IN)	.9715
Spokane, WA (Spokane, WA)	1.1170
Springfield, IL (Menard, IL, Sangamon, IL)	1.1394
Springfield, MO (Christian, MO, Greene, MO)	.9518
Springfield, MA (Hampden, MA, Hampshire, MA)	.9855
State College, PA (Centre, PA)	1.0543
Steubenville-Weirton, OH-WV (Jefferson, OH, Brooke, WV, Hancock, WV)	.9743
Stockton, CA (San Joaquin, CA)	1.1624
Syracuse, NY (Madison, NY, Onondaga, NY, Oswego, NY)	1.4527
Tocoma, WA (Pierce, WA)	1.0424
Tallahassee, FL (Gadsden, FL, Leon, FL)	.9251
Tampa-St. Petersburg-Clearwater, FL (Hernando, FL, Hillsborough, FL, Pasco, FL, Pinellas, FL)	.9963
Terre Haute, IN (Clay, IN, Vigo, IN)	.8809
Texarkana-TX-Texarkana, AR (Miller, AR, Bowie, TX)	1.1081
Toledo, OH (Fulton, OH, Lucas, OH, Wood, OH)	1.1307
Topeka, KS (Shawnee, KS)	1.1108
Trenton, NJ (Mercer, NJ)	1.0365
Tucson, AZ (Pima, AZ)	1.0141
Tulsa, OK (Creeks, OK, Osage, OK, Rogers, OK, Tulsa, OK, Wagoner, OK)	1.0386
Tuscaloosa, AL (Tuscaloosa, AL)	1.0166
Tyler, TX (Smith, TX)	1.0008
Utica-Rome, NY (Herkimer, NY, Oneida, NY)	.9332
Vallejo-Fairfield-Napa, CA (Napa, CA, Solano, CA)	1.3266
Vancouver, WA (Clark, WA)	1.0807
Victoria, TX (Victoria, TX)	.8616
Vineland-Millville-Bridgeton, NJ (Cumberland, NJ)	.9479
Visalia-Tulare-Porterville, CA (Tulare, CA)	1.1331
Waco, TX (McLennan, TX)	.8313
Washington D.C.-MD-VA (District of Columbia, DC, Calvert, MD, Charles, MD, Frederick, MD, Montgomery, MD, Prince Georges, MD, Alexandria City, VA, Arlington, VA, Fairfax, VA, Fairfax City, VA, Falls Church City, VA, Loudoun, VA, Manassas City, VA, Manassas Park City, VA, Prince William, VA, Stafford, VA)	1.1577

TABLE 5.—WAGE INDEX FOR INDEX FOR URBAN AREAS—Continued

Urban area (constituent counties or county equivalents)	Wage index
Waterloo-Cedar Falls, IA (Black Hawk, IA, Bremer, IA)	.9081
Wausau, WI (Marathon, WI)	.9428
West Palm Beach-Boca Raton-Delray Beach, FL (Palm Beach, FL)	.9990
Wheeling, WV-OH (Belmont, OH, Marshall, WV, Ohio, WV)	.8811
Wichita, KS (Butler, KS, Sedgwick, KS)	1.1181
Wichita Falls, TX (Wichita, TX)	.8701
Williamsport, PA (Lycoming, PA)	1.0242
Wilmington, DE-NJ-MD (New Castle, DE, Cecil, MD, Salem, NJ)	1.0871
Wilmington, NC (New Hanover, NC)	.8908
Worcester-Fitchburg-Leominster, MA (Worcester, MA)	.9750
Yakima, WA (Yakima, WA)	1.0018
York, PA (Adams, PA, York, PA)	1.0286
Youngstown-Warren, OH (Mahoning, OH, Trumbull, OH)	1.1017
Yuba City, CA (Sutter, CA, Yuba, CA)	1.0807

WAGE INDEX FOR RURAL AREAS

Non-urban area	Wage index
Alabama	.7775
Alaska	1.4363
Arizona	.8831
Arkansas	.7794
California	1.0100
Colorado	.8317
Connecticut	.9953
Delaware	.8697
Florida	.8682
Georgia	.8481
Hawaii	1.1747
Idaho	.8884
Illinois	.8708
Indiana	.8706
Iowa	.8158
Kansas	.8118
Kentucky	.8146
Louisiana	.8322
Maine	.8648
Maryland	.8370
Massachusetts	.8890
Michigan	.9471
Minnesota	.8572
Mississippi	.8004
Missouri	.8290
Montana	.8894
Nebraska	.7411
Nevada	1.0157
New Hampshire	1.0297
New Jersey [1]	
New Mexico	.8148
New York	.8898
North Carolina	.8467
North Dakota	.8309
Ohio	.8126
Oklahoma	.8562
Oregon	.8543
Pennsylvania	1.0305
Rhode Island [1]	
South Carolina	.8071
South Dakota	.7857
Tennessee	.7880
Texas	.8104
Utah	.8211
Vermont	.8757
Virginia	.8502
Washington	.9477
West Virginia	.8162
Wisconsin	.8454
Wyoming	.8646

[1] All counties within the State are classified urban.

Special treatment of certain facilities

Certain exceptions and adjustments to the prospective payment rates are provided as follows:

Sole community hospitals

The Secretary is required to apply a special formula for sole community hospitals (SCH's), which are hospitals that (by reason of factors such as isolated locations, weather conditions, travel conditions, or absence of other hospitals) are the sole source of inpatient services reasonably available in a geographic area. SCH's are paid indefinitely on the same basis as all other hospitals are paid in the first year of the transition period: 25 percent of the payment is based on regional DRG rates and 75 percent on each hospital's cost base. During the transition period, SCH's may also receive an additional payment amount if, due to circumstances beyond their control, they experience a decrease of more than 5 percent in their number of inpatient cases. As of December 1985, 359 hospitals had been classified as sole community providers.

Cancer hospitals

The Secretary is authorized to provide for exceptions and adjustments to the prospective payment amounts appropriate for hospitals involved extensively in treatment for and research on cancer. The regulations define a cancer hospital as one which: (1) was recognized by the National Cancer Institute as a comprehensive cancer center or a clinical cancer research center as of April 20, 1983, (2) demonstrates that the entire facility is organized primarily for treatment of and research on cancer, and (3) has a patient population such that at least 50 percent of the hospital's total discharges have a principal diagnosis that reflects a finding of neoplastic disease. Cancer hospitals meeting these criteria may elect to be paid on a reasonable cost basis. As of December 1985, eight hospitals had been designated as cancer hospitals.

Regional and national referral centers

The Secretary is authorized to provide authorized exceptions and adjustments appropriate for regional and national referral centers (including those with 500 or more beds located in rural areas). The regulations define such hospitals as: (1) those located in rural areas having 500 or more beds; (2) those having at least 50 percent of their Medicare patients referred from other hospitals or physicians not on the hospital's staff; these hospitals must also have at least 60 percent of the Medicare patients residing more than 25 miles from the hospital and at least 60 percent of the services furnished to Medicare beneficiaries who live 25 miles or more from the hospital; or (3) for hospital cost reporting periods beginning on or after October 1, 1985, rural hospitals meeting the following criteria: (a) a case mix index threshold of either 1.1294 (the national index) or the median urban case mix index for the region in which the hospital is located (as published at 50 FR 35673); and (b) a minimum number of discharges of either 6,000 (the national discharge criterion) or the median number of urban discharges for the region in which the hospital is located (as published at 50 FR 35675); and (c) at least one of the following three criteria: more than 50 percent of the hospital's medical staff are specialists, at least 60 percent of discharges are for inpatients who reside more than 25 miles from the hospital, or at least 40 percent of inpatients treated at the hospital have been referred either from physicians not on the hospital's staff or from other hospitals. Hospitals meeting criterion (1) will be paid prospective payments based on the applicable urban payment rates rather than the rural rates, as adjusted by the hospital's area wage index. Effective with cost reporting periods beginning on or after October 1, 1984, rural hospitals meeting criterion (2) and hospitals meeting criterion (3) are also paid prospective payments based on the applicable urban payment rates, as adjusted by the hospital's wage index. As of December 1985, there were 162 regional referral centers.

Public or other hospitals with many low-income patients or medicare beneficiaries

The Secretary is required to provide for exceptions and adjustments to the prospective payment rates as the Secretary deems appropriate to take into account the needs of hospitals that serve a significantly disproportionate number of low-income patients or Medicare Part A beneficiaries. Currently, HCFA has not provided for such an adjustment. The law requires the Secretary, prior to December 31, 1984, to define and identify such hospitals. The Secretary published a definition of these hospitals on December 31, 1985. The notice set forth 2 definitions: (1) hospitals that serve a significantly disproportionate share of low-income patients, and (2) hospitals that serve a significantly disproportionate share of Medicare Part A beneficiaries. The Secretary defined a hospital serving a disproportionate share of low-income patients as one whose ratio of hospital inpatient days for Medicare beneficiaries qualifying for SSI payments to total hospital inpatient days exceeds 39.55 percent. A hospital serving a significantly disproportionate share of Medicare patients is one whose ratio of Medicare inpatient days to total inpatient days exceeds 91.01 percent. The notice concluded with the statement that "although [HCFA established] a definition * * * [there would be no] adjustments to PPS rates for disproportionate share hospitals at this time."

Hospitals excluded from the prospective payment system

The following hospitals are by law excluded from the prospective payment system and are paid on the basis of reasonable costs, subject to the TEFRA rate of increase limits: psychiatric hospitals, rehabilitation hospitals, psychiatric or rehabilitation units which are distinct parts of a hospital, children's hospitals (with patients averaging under 18 years of age), long-term hospitals (with an average inpatient length of stay greater than 25 days), and hospitals outside the 50 States and the District of Columbia. By regulation, alcohol/drug treatment hospitals and units meeting specified criteria are excluded until October 1, 1985. Alcohol/drug treatment hospitals and units excluded for their cost reporting periods beginning in fiscal year 1985 would continue to be excluded for another year. As of September 1985 there were 28 alcohol/drug treatment hospitals and 326 alcohol/drug treatment units.

Hospitals reimbursed under approved State cost control systems are also excluded from the prospective rates. In addition, the regulations indicate that there are special cases where the prospective payment system is inappropriate and will not be applied, such as for emergency services provided to Medicare beneficiaries in hospitals not participating in Medicare, Veterans' Administration hospital services provided to Medicare beneficiaries, and hospital services provided to Medicare beneficiaries who belong to health maintenance organizations or competitive medical plans (such organizations may choose to have the Secretary pay hospitals directly for such services or may negotiate their own rates with hospitals).

Administrative and judicial review

Administrative and judicial appeals are allowed under procedures and authorities already established under the Medicare program. However, the law precludes administrative and judicial review of: (1) the "budget neutrality" adjustment (see above), and (2) the DRG payment amounts, including the establishment of DRG's, the methodology for classifying discharges within DRG's, and the DRG weighting factors.

Review activities

Public Law 97-248, the Tax Equity and Fiscal Responsibility Act of 1982 (known as TEFRA) replaced the existing Professional Standards Review Organization (PSRO) program with the utilization and quality control peer review program. The Secretary of the Department of Health and Human Services was required to enter into performance-based contracts with physician-sponsored or physician-access organizations known as Peer Review Organizations (PRO's) by November 15, 1984. As a condition of receiving payments under the prospective payment system, hospitals are required to enter an agreement with a PRO under which the PRO will review the validity of diagnostic and procedural information provided by the hospitals; the completeness, adequacy and quality of care provided; and the appropriateness of admissions and admission patterns, discharges, lengths of stay, transfers, and services furnished in outlier cases.

Nonphysician services furnished to hospital inpatients

Prior to Public Law 98-21, payments for nonphysician services (in such areas as radiology, laboratory, physical therapy, prosthetics) provided to Medicare beneficiaries who were hospital inpatients were made sometimes to the hospital under part A of Medicare on a reasonable cost basis and sometimes to an outside supplier of the service under part B of Medicare on the basis of reasonable charges. The practice of billing under part B for services provided to hospital inpatients has been known as the "unbundling" of part A services. Public Law 98-21 provides that, effective October 1, 1983, for all hospitals participating in the Medicare program (including those under prospective payment, excluded hospitals, and those paid under State cost control systems), all nonphysician services provided to hospital inpatients will be paid only as hospital services under the part A program. The Secretary has authority to waive this requirement during the transition period to allow billing under part B for hospitals that had such extensive billings under part B prior to October 1, 1982, that compliance with the new requirement would threaten the stability of patient care (commonly referred to as 602k hospitals). As of December 1985 there were four 602k hospitals.

The January 3, 1984, regulations provided for an exception to the "unbundling" requirement for the inpatient hospital services of nonphysician anesthetists, such as certified registered nurse anesthetists (CRNA's). For hospital cost reporting periods beginning before October 1, 1986, if a physician (usually an anesthesiologist) employed nonphysician anesthetists on the last day of the hospital's most recent cost reporting period ending before September 1, 1983, then the physician could continue to bill the Medicare program for the nonphysician anesthetists' services under part B of Medicare. If the physician chooses to continue such part B billing during the transition period, the hospital may not add the costs of such services to its base period costs for purposes of determining the hospital-specific portion of its DRG payment rates. DEFRA provided that, effective with cost reporting periods beginning October 1, 1984, and before October 1, 1987, the costs of anesthesia services provided by qualified nonphysician anesthetists (CRNA's and anesthesiology assistants) employed by hospitals or obtained under arrangements are removed from prospective payment, to be reimbursed on the basis of reasonable cost.

State cost control systems

Section 1886(c) of the Social Security Act (as added by TEFRA) authorized the HHS Secretary at his/her discretion to reimburse hospitals in a State according to the State's hospital reimbursement control system rather than according to Medicare's reimbursement methods if the State requests this change and if HHS determines that the State system meets certain requirements. Currently two States have waivers to operate their own systems: Maryland and New Jersey.

Public Law 98-21 added several more requirements for State systems: provisions related to reimbursement to health maintenance organizations or competitive medical plans, charges to medicare beneficiaries for payment amounts denied by the medicare program because of improper hospital admissions or medical practices, and nonphysician services provided to hospital inpatients from payment under part B of Medicare. The Secretary is prohibited from denying a State waiver because the State's system is based on a payment methodology other than DRG's or from requiring that medicare expenditures under the State's system be less than the expenditures which would have been made under the Federal prospective payment system. The Secretary is required to approve any State system which meets certain requirements in addition to the conditions mentioned above. The Secretary is required to respond within 60 days to waiver requests from States meeting all requirements.

Public Law 98-369, the Deficit Reduction Act of 1984, required proposed regulations implementing section 1886(c) to be published by July 1, 1984, and final regulations by October 1, 1984. Proposed regulations were published on May 13, 1985 (50 FR 20047). Final regulations have yet to be promulgated.

Prospective Payment Assessment Commission

Public Law 98-21 required the director of the Congressional Office of Technology Assessment (OTA) to appoint a commission of 15 independent experts, known as the Prospective Payment Assessment Commission (ProPAC) by April 1, 1984. ProPAC is required to review the percentage increase used to update the DRG payment rates for fiscal years 1984 and 1985 and to made recommendations in a report to the Secretary on the appropriate percentage change for fiscal years beginning with 1986. ProPAC must consult with and make recommendations to the Secretary on the need for adjustments to the DRG classifications, the methodology for classifying specific hospitals discharges within the DRG's, and weighting factors for the DRG's.

ProPAC's recommendations for fiscal year 1986 are highlighted below.

LIST OF RECOMMENDATIONS

The Update Factor

Recommendation 1: Amount of the Update Factor

For fiscal year 1986, the standardized amounts should be updated by the projected increase in the hospital market basket, minus one percentage point, plus an allowance for the estimated increase in real case-mix complexity during fiscal year 1985. The negative one percentage point is a combined adjustment of a positive allowance for scientific and technological advancement and a negative allowance for productivity improvement and hospital product change.

This recommendation reflects the Commission's collective judgment of the appropriate increase in the level of payment per Medicare discharge under PPS, assuming that the Commission's other concerns regarding the market basket component of the update factor, the DRG weighting factors, and the distribution of payments across PPS hospitals are also addressed in the fiscal year 1986 payment rates. Further, this recommendation is based on the premise that no net reductions or increases in average per case payments to hospitals will be effected through measures other than the update factor, such as reducing the indirect teaching adjustment, incorporating capital payment under PPS at a budget-saving level, adjusting for coding changes occurring before fiscal year 1985, or any other changes in total payments per discharge under PPS.

The Hospital Market Basket

Recommendation 2: The Number of Market Baskets

For fiscal year 1986, a single market basket should be continued for those hospitals under PPS. The Commission will undertake a study to determine the appropriateness of developing market basket measures that reflect variation in economic factors across hospitals. The use of multiple market baskets by region and classes of hospitals within regions will be examined. If the analysis indicates that multiple market baskets are appropriate, the study will also include an assessment of the data required for implementation.

Recommendation 3: Market Basket for Psychiatric, Rehabilitation, and Long-Term Care Hospitals

Separate market basket weights should be used for the group of psychiatric, rehabilitation, and long-term care hospitals and related distinct-part units that are exempt from PPS, but subject to the TEFRA rate of increase limitation. Separate market basket weights need not be developed for children's hospitals.

Recommendation 4: Market Basket Wage Component—Occupational Groups

The wage component of the market basket should be split into three categories, each with separate weights: Managers and Administrators, Professionals and Technicians, and Other Hospital Workers. Changes in wages for these categories should be measured as follows:

- Managers and Administrators: the Employment Cost Index (ECI) for Managers and Administrators.
- Professionals and Technicians: a 50-50 blend of the Average Hourly Earnings (AHE) for the hospital industry and the ECI for Professionals and Technicians.
- Other Hospital Workers: a 50-50 blend of the AHE for the hospital industry and the ECI for all private industry.

Recommendation 5: Employment Cost Index Feasibility Study

For the long run, the Secretary should work with the Bureau of Labor Statistics to study the advantages and feasibility of developing an Employment Cost Index for the hospital industry that includes both public and private hospitals and covers increases in both wages and fringe benefits.

Recommendation 6: Study Effects of Changes in the Minimum Wage Law on Hospital Workers

The Commission plans to study the extent to which hospital workers would be affected by changes in the Federal minimum wage law. The intent of the study is to detect whether, under PPS, workers who earn more than the minimum wage are differentially affected by statutory increases in the minimum wage compared with workers in other industries. If a differential effect is found to exist, the Commission will consider requesting the Secretary to take appropriate action.

Recommendation 7: Correction of Market Basket Forecast Errors

The update factor should include a correction for substantial errors made in the previous year's forecast of changes in the external price measures used in the hospital market basket. In the judgment of the Commission, substantial errors are those that equal or exceed 0.25 percentage points (or, when rounded in the published forecasts, 0.3 percentage points). The Commission will undertake a study to determine the extent to which differences between forecasted and actual increases in the internal price change measures are due to factors beyond the hospitals' control. Substantial errors determined after study to be due to factors beyond the hospitals' control should be corrected in the update factor.

Recommendation 8: Statutory Change for Forecast Error Correction

The Secretary has determined that she does not have the statutory authority to correct for market basket forecast errors. Therefore, the Secretary should seek statutory change to provide explicitly that the update factor include a correction for errors in forecasting the market basket beginning in fiscal year 1986.

Recommendation 9: Rebasing of Market Basket Weights

Market basket weights should be rebased at least every five years. Rebasing should be performed more frequently if significant changes in the weights occur. In addition, the market basket weights will need to be rebased if payment for capital or direct medical education is included in the PPS rates.

Discretionary Adjustment Factor

Recommendation 10: Allowance for Productivity and Scientific and Technological Advancement Goals

For the fiscal year 1986 payment rates, the allowance in the discretionary adjustment factor for scientific and technological advancement, productivity improvement, and hospital product change should be set at minus one percentage point.

Recommendation 11: Adjustment for Case-Mix Change

Prospective payments to individual hospitals and in the aggregate should reflect real changes in case mix. Changes in reported case mix that are unrelated to actual differences in the types of patients treated should not be built into future PPS payments.

Recommendation 12: Update Factor for Exempt Hospitals

In addition to the projected increase in the market basket, hospitals and hospital distinct-part units exempt from PPS should receive a minus one percentage point adjustment in their fiscal year 1986 update factor for productivity improvement and scientific and technological advancement.

Hospital Labor Market Areas—Area Wage Index

Recommendation 13: Improvement of Labor Market Area Definitions

In order to better reflect hospital labor markets, the Secretary should improve, as soon as possible, the current definition of a hospital labor market area used to adjust PPS rates for area wage differences, taking into account variations in wages paid in the inner city compared with suburban areas within a metropolitan area, and variations paid in different rural locations within a state. Implementation of this recommendation should not result in any change in aggregate payments.

Disproportionate Share Hospitals

Recommendation 14: Disproportionate Share Adjustment for Fiscal Year 1986

The Secretary should develop a methodology for adjusting PPS rates for disproportionate share hospitals and implement the adjustment in fiscal year 1986. The adjustment should be implemented so that it does not change aggregate payments.

Recommendation 15: Definition of Disproportionate Share Hospitals

The Secretary should complete the development of a definition of disproportionate share hospitals in ample time to include adjustments for these hospitals in the fiscal year 1986 PPS payment rates. The Secretary should consider broader definitions of low income than simply the percentage of patients who are Medicaid recipients and should determine whether the share of Medicare Part A patients should be excluded from the definition.

Rebasing the Standardized Amounts

Recommendation 16: Rebasing the Standardized Amounts

The standardized amounts used to determine hospital payments under PPS should be recalculated using cost data that reflect hospital behavior under PPS. The results of such a recalculation, with appropriate modifications, could be used to rebase the standardized amounts. Although recent cost data are not available to recalculate the standardized amounts for the fiscal year 1986 payment rates, the Secretary should implement a process for timely collection of the cost data necessary for future recalculation. The Commission will later consider more specific recommendations regarding the timing, data sources, and process for rebasing the standardized amounts.

DRG Classifications and Relative Weighting Factors

Recommendation 17: Recalibrating the DRG Weights

For fiscal year 1986, all DRG weights should be recalibrated using the 1984 PATBILL data set. The newly recalibrated weights should be:

(1) Normalized so that the average case weight is the same as it was at the beginning of fiscal year 1985, thereby incorporating DRG weight adjustments made before the start of fiscal year 1985

(2) Adjusted for any demonstrable changes in reported case mix occurring during fiscal year 1985

Recommendation 18: Cardiac Pacemaker Implantation

The DRGs involving cardiac pacemakers, [illegible] 116, 117, and 118, should be recalibrated in the same manner as other DRGs to reflect changes in practice since 1981. The Commission will continue to analyze diagnosis and procedure coding and DRG classification related to pacemaker implantation and replacement; the distribution of costs and payments across discharges, hospitals, and DRGs; and the impact of PPS on the quality of patient care.

Recommendation 19: Cataract Extraction and Intraocular Lens Implantation

DRG 39, Lens Procedures, should be recalibrated in the same manner as other DRGs to reflect changes in practice since 1981, including the more frequent implantation of an intraocular lens following cataract removal. The Commission will continue to monitor resource use in this DRG to determine whether the types of patients treated as hospital inpatients change with increased outpatient surgery for cataract removal.

Recommendation 20: Percutaneous Transluminal Coronary Angioplasty

Cases in which Percutaneous Transluminal Coronary Angioplasty (PTCA) is the principal procedure should be removed from DRG 108 and temporarily assigned to DRG 112 before recalibration. The Secretary should immediately implement a mechanism to identify bills for cases in which PTCA is performed in order to provide data for analysis and additional adjustments as appropriate.

Recommendation 21: No Change Recommended for Bone Marrow Transplantation and Infective Endocarditis

The Commission has examined Bone Marrow Transplantation and Treatment for Infective Endocarditis and is recommending no changes in DRG classification or weights at this time, other than those that would occur with recalibration. Information will continue to be gathered and the subjects reconsidered at an appropriate time.

Source: Report and Recommendations to the Secretary, U.S. Department of Health and Human Services, April 1985, Prospective Payment Assessment Commission.

In addition, ProPAC is required to report to Congress its evaluation of any adjustments to PPS which the Secretary makes. The executive summary of the report for fiscal year 1986 follows.

ProPAC, an independent, 15-member Commission composed of experts in health care financing, delivery and research, presents its views on the Final Rule, which was to become effective on October 1, 1985. The Congress has enacted legislation to delay these regulations in order to allow legislative decision-making to proceed with the budget reconciliation process. ProPAC's comments, however, focus on the Secretary's Final Rule as promulgated, since the intent of these regulations was clear and this is its statutory responsibility under Public Law 98-21.

In developing its recommendations, the Commission was guided by the overriding principle that the Medicare prospective payment system should operate in an unbiased way and not subject any population group, region of the country, or class of hospital to systematic underpayments. Nor do they believe that it was the intent of the Congress to use this system to consciously underpay for providing needed hospital services to Medicare beneficiaries. As will be documented below, ProPAC believes that several of the decisions made by the Secretary have the unanticipated consequence of creating such biases or, in the case of her failure to create an adjustment in the rates for hospitals that treat a disproportionate number of low income patients, failing to address a clear bias in the design of the original system.

The Commission specifically addresses in detail in its report: the effects of the recalibration of Diagnosis Related Groups (DRGs); changes in specific DRGs; changes in DRG classification and assignment; the updating of PPS rates; and other major PPS policy issues. ProPAC's comments on these subjects are highlighted below.

Updating of payment amounts

Updating of prospective payment amounts is required each year under the statute. The Commission believes that a "freeze" in prospective payment rates, as mandated in the Final Rule, is inadequately justified in the regulations and has the potential to affect quality of care. The recommendations of the Commission would have resulted in an increase in PPS rates of 1.54 percent for fiscal year 1986. In making its recommendations, ProPAC assumed that no other changes in PPS would be made to increase or decrease overall payments to hospitals. Since the Final Rule would make other payment changes, ProPAC believes that the difference between their recommended update factor and that of the Department is even more significant.

The Secretary's primary justification for the freeze is that the PPS rates should be reduced to offset reported changes in hospital case mix since the beginning of the prospective payment system. The Final Rule states that budget neutrality requires this adjustment, which is a departure from the position used in setting rates in fiscal year 1985. The Commission believes that removing all case-mix changes is inappropriate and that the PPS update factor should reflect the higher costs of treating a "sicker" mix of patients during fiscal year 1985.

The Commission believes that the justification for the freeze in per case payments to hospitals excluded from the Medicare PPS is particularly weak, since the case-mix adjustment does not apply to these hospitals. The Commission's recommended update for excluded hospitals is 2.74 percent.

Recalibration and changes in DRG classification and assignment

The statute requires that the DRG weights be recalibrated—that is, recalculated using more recent data—at least every four years. This is to ensure that PPS payments reflect changes in the relative costs of treating patients among the various DRGs which would result from technological or practice pattern changes. The Commission recommended that recalibration be accomplished using charge data from the fiscal year 1984 Medicare patient billing file. This recommendation was followed in the Final Rule.

The final regulations made a number of changes in the way diagnoses are classified and assigned to the DRGs. Generally, these changes are appropriate and necessary. The Commission notes in several specific instances that review of the data used by the Department in making its decision should be made available so that more informed judgments may be made about the decisions.

The Commission is pleased that the final regulations indicates that future GROUPER changes will be made available by the Department to ProPAC for our review before these GROUPER changes are implemented. ProPAC believes that this decision is consistent with the advisory role envisioned for ProPAC under the statute.

Other policy issues

Several other policy issues of particular concern to the Commission are discussed in this report.

—ProPAC continues to strongly believe that an adjustment for hospitals serving a disproportionate share of low income patients should be included in the PPS payments for fiscal year 1986.

—Changes in computation of the indirect medical education allowance are inappropriate.

—While the new survey-based wage index in the final regulations is an improvement, further improvements are essential, particularly in the definition of hospital labor market areas.

Source: 1986 Adjustments to the Medical Prospective Payment System: Report to Congress. November 1985. Prospective Payment Assessment Commission. Executive Communication 2376.

REIMBURSEMENT FOR CAPITAL-RELATED EXPENSES

Present law provides that capital-related costs (including depreciation, interest, rent and, in the case of proprietary entities, a return on equity) are to be excluded from the prospective payment system until October 1, 1986. Until that time, capital costs continue to be reimbursed on a reasonable cost basis. Public Law 98-21 directs the Secretary of Health and Human Services to conduct a study and, within 18 months after enactment of that law, to report to Congress on methods and proposals under which capital costs, including the return on equity capital, may be included in the prospective payment system. This report, which was due in October 1984, has not yet been submitted.

Public Law 98-21 also provides that, if no legislation is enacted prior to October 1, 1986 regarding inclusion of capital-related costs in the prospective payment system, no payment can be made for capital costs associated with a subsequent capital expenditure unless the State in which the hospital is located has a capital expenditure review agreement with the Secretary (under section 1122 of the Social Security Act) and the State has recommended approval of the expenditure. The conference report on Public Law 98-21 also states that, if the Secretary has implemented a system of prospective payments for capital-related costs (without any further action by Congress) and the mandatory section 1122 approval process goes into effect, the Secretary must make adjustments to the payment rates to reflect capital-related costs not approved under section 1122. Public Law 98-21 expresses the intent of Congress that, when including capital-related costs under the prospective payment system, new capital projects for which expenditures are made on or after the effective date of the implementation of the prospective payment system may be reimbursed differently from projects begun before that date.

Reimbursable capital expenses include:

Depreciation

Depreciation is that amount which represents the portion of an asset's cost or value which is used up during a period of operation. Depreciation accounting is a system of accounting which prorates the cost or other basic value of a tangible capital asset, less salvage value (if any), over its estimated useful life.

An appropriate allowance for depreciation on buildings and equipment used to render care covered by Medicare is reimbursable as a capital cost. Depreciation is based on the historical, i.e., original, cost of the asset except that special rules apply in the case of assets acquired prior to 1966. The program recognizes depreciation on assets in use at the time the provider enters the program even though such assets have been fully or partially depreciated on the provider's books. A depreciation allowance is also permitted on assets that are used in a normal standby or emergency capacity or for assets financed by public funds.

In general, the useful life of an asset is based on the useful-life guidelines published by the American Hospital Association or the Internal Revenue Service. Generally, options for straight-line depreciation (which provides a uniform allowance each year) and accelerated depreciation (which permits a larger writeoff in the initial years) are permitted for assets acquired before August 1970; only straight line and (within limits) declining balance depreciation (which is one form of accelerated depreciation) are recognized for assets acquired at a later date.

Reimbursement for capital-related costs after a change of ownership is limited to the lesser of the amount that would be allowable on the purchase price or the allowable cost under Medicare to the original owner. Thus, upward revaluation of assets is no longer permitted in calculating allowable depreciation expenses. Also, transaction costs are no longer allowable costs in a resale of assets. The conference report for Public Law 98-369 also states the conferee's expectation that the Secretary will determine the reasonableness of rental costs associated with depreciable assets that have been sold in order to prevent circumvention of the revaluation restrictions by sale and lease-back arrangements.

Special rules apply with respect to gains or losses resulting from disposal of assets. In particular, when an asset is sold at a price that differs from its depreciated value, Medicare shares in the gain or loss in the same proportion as it shares in total depreciation expense. Medicare's gain (recapture) is limited to the total amount of depreciation previously paid to the seller on the asset sold. Medicare's loss is limited to its share of the asset's current depreciated value.

Medicare does not require the funding of depreciation; that is, the provider is not required to set aside the amount allowed for depreciation for replacement of the asset. However, as an incentive for funding, investment income on funded depreciation is not treated as an offset to allowable interest expense.

Public Law 97-34, the Economic Recovery Tax Act of 1981, made a number of changes in the calculation of depreciation for tax purposes. However, the law excludes Medicare (and other programs administered by HHS) from the new depreciation rules for purposes of determining cost reimbursement under the program.

Interest

Necessary and proper interest on current and capital indebtedness is included as reimbursable capital cost under Medicare. Generally, current indebtedness represents short-term loans for working capital for normal operating expenses. Capital indebtedness represents long-term loans in which the funds are used for acquiring facilities and equipment or making capital improvements.

To be recognized as an allowable cost, interest must be incurred on funds needed to satisfy the financial needs of the hospital and must be for a purpose reasonably related to patient care. Public Law 98-369 provides that, in the case where funds are borrowed for the purchase of used assets (change of ownership), the interest expense allowable to the new owner may not exceed the amount that would be incurred by borrowing funds equal to the depreciated value of the assets on the seller's books (i.e., without revaluation).

The rate of interest may not be in excess of what a prudent borrower would have had to incur in the money market in an arm's-length transaction. The interest must be paid to a lender not related through control, ownership, or personal relationship to the borrowing organization.

Generally, allowable interest expenses are reduced by investment income except where such income is from: (1) gifts, grants, and endowments, whether restricted or unrestricted; (2) funded depreciation; (3) a provider's qualified pension fund; or (4) deferred compensation funds.

Return on equity capital of proprietary hospitals

A reasonable return on equity capital invested and used in providing patient care is an allowable cost for proprietary providers. Equity capital is the net worth of a provider excluding those assets and liabilities not related to patient care. Specifically equity capital includes: (1) a provider's investment in plant, property, and equipment (net of depreciation) related to patient care, plus funds deposited by a provider who leases such items where such deposit is required by the lease; and (2) net working capital maintained for necessary and proper operation of patient care activities.

The base amount of equity capital to be used in computing the allowable return is the average investment of the owners during a reporting period. The rate of return (for cost reporting periods on or after April 20, 1983) is equal to the rate of interest paid by the Federal Treasury on the assets of the Federal Hospital Insurance Trust Fund.

Public Law 98-369 provides that the return on equity capital on assets purchased from a previous owner (change of ownership) is limited to the amount that would be payable if the return were calculated on the depreciated value of the assets on the previous owner's books at the time of the sale.

HIGHLIGHTS OF LEGISLATION AND REGULATIONS AFFECTING THE PROSPECTIVE PAYMENT SYSTEM

Medicare's Prospective Payment System (PPS) for hospitals has evolved through legislation and regulation. The original authorizing legislation (Public Law 98-21, the Social Security Amendments of 1983, April 20, 1983) was first implemented by final rules issued by the Department of Health and Human Services on January 3, 1984 (49 FR 234). The Deficit Reduction Act of 1984 (Public Law 98-369; July 18, 1984) made certain changes to PPS. These changes and other changes including the payment rates for fiscal year 1985 were incorporated into final rules issued by the Department on August 31, 1984 (49 FR 34728). The Department issued final rules on September 3, 1985 (50 FR 35645) making certain changes to PPS and freezing the PPS payments for fiscal year 1986, effective October 1, 1985. However, only the non-payment features of these regulations became effective. The payment features could not be implemented because of the enactment of P.L. 99-107, the Emergency Extension Act of 1985, as amended by P.L. 99-201, which provides that from October 1, 1985, through March 14, 1986, PPS payments be made on the same basis as they were made on September 30, 1985. Selected features of PPS as determined by legislation and regulation are described below.

1. Increases in Medicare payments to hospitals

Public Law 98-21 and 49 FR 234: Provides that the Medicare DRG payment rates for fiscal years 1984 and 1985 would be increased annually by the increase in the hospital market basket plus 1 percentage point, subject to a budget neutrality requirement which provides that Medicare payments in those 2 years must equal what would have been spent if PPS had not been put in place. Provides that the Secretary would determine the rate of increase for fiscal year 1986 and thereafter, taking into account the recommendations of the Prospective Payment Commission.

Public Law 98-369 and 49 FR 34728: Changes the annual increase in the DRG payment rates for fiscal year 1985 to the increase in the market basket plus 0.25 percentage point, subject to budget neutrality. Limits the rate of increase to be determined by the Secretary for fiscal year 1986 to the rate of increase in the market basket plus 0.25 percentage point.

50 FR 35645: The Secretary promulgated a zero rate of increase in the DRG payment rates for fiscal year 1986.

Public Law 99–107: Provides that the payment rates in effect on September 30, 1985, would remain in effect until November 14, 1985. Public Laws 99–155, 99–181, 99–189 and 99–201 extended this requirement through March 14, 1986.

2. Wage index

Public Law 98–21: Provides that the Federal portion of the DRG rates be adjusted by a wage index to reflect the hospital wage level in an individual hospital's geographic area relative to the national average hospital wage level.

49 FR 234: The Department indicated it would use employment data from the Bureau of Labor Statistics (BLS) to develop the wage index. While acknowledging the limitations of the BLS data (including lack of information about part time employment), the Department stated that BLS data are the best presently available for the development of the wage index.

Public Law 98–369: Requires the Secretary, in consultation with the Secretary of Labor, to conduct a study to develop an appropriate wage index, taking into account wage differences of full-time and part-time employees. The results of the study were to be reported to Congress by August 18, 1984. If any changes are made to the wage index as a result of this study, requires the Secretary to make retroactive adjustments to the payment amounts for hospital cost reporting periods beginning on or after October 1, 1983. Requires the Secretary to study and report to Congress proposed criteria to be used to modify a hospital's wage adjustment if the hospital can demonstrate that the wage index does not accurately reflect wage levels in the labor market serving the hospital.

49 FR 34728: The Department indicated that it surveyed the hospitals subject to PPS to obtain wage and employment data which could be used to develop an improved wage index. However, the data obtained had too many errors to develop a reliable wage index in time for the publication of the August 1984 rules. The Department is planning to use these data, once they are determined to be accurate and reasonably complete, to conduct the mandated study and to construct a revised wage index. The Department indicated that any revised wage index will be retroactive to October 1, 1983, as mandated by law. The Department indicated that it does not intend to address the development of adjustment criteria in the near future.

50 FR 35645: The Department promulgated final regulations to implement the survey-based gross wage index retroactive to October 1, 1983. The survey-based wage index used to determine the amount of a hospital's underpayment or overpayment would be based on the recognized urban/rural definition in effect for the entire Federal fiscal year for which the payment adjustment determination is being made. The payment adjustments will be spread out over the course of one year, rather than requiring lump-sum payments to minimize the negative impact on overpaid hospitals.

Public Law 99-107: Provides that Medicare hospital payment amounts would be determined on the same basis as they were on September 30, 1985. Public Laws 99-155, 99-181, 99-189 and 99-201 extended this requirement through March 14, 1986. This means that there can be no change in the wage index until after this date.

3. Referral centers

Public Law 98-21: Requires the Secretary to provide for such exceptions and adjustments to the DRG payment amounts as the Secretary deems appropriate to take into account the special needs of regional and national referral centers (including hospitals of 500 or more beds located in rural areas).

49 FR 234: The Department's criteria for a referral center were that the hospital must be located in a rural area and have at least 500 beds; or the hospital must have an inpatient population such that at least 50 percent of its Medicare patients are referred from other hospitals or from physicians not on the staff of the hospital, at least 60 percent of the hospital's Medicare patients reside more than 25 miles from the hospital, and at least 60 percent of all services received by Medicare beneficiaries are provided to beneficiaries residing more than 25 miles from the hospital. Such hospitals would be paid on the basis of the higher urban rates, rather than the rural rates. No adjustment was provided for rural referral centers with fewer than 500 beds or for referral centers located in urban areas.

Public Law 98-369: Provides that a rural hospital may appeal to the Secretary to be classified as a rural referral center on the basis of criteria established by the Secretary which would allow the hospital to demonstrate that it should be so classified because it has characteristics (such as wages, scope of services, service area, and mix of medical specialties) similar to those of a typical urban hospital located in the same census region.

49 FR 34728: The Department broadened the definition of a rural referral center to include rural hospitals that meet a case mix index threshold, a minimum number of discharges, and one of the following three criteria: more than 50 percent of the hospital's medical staff are specialists, at least 60 percent of discharges are inpatients residing more than 25 miles from the hospital, or at least 40 percent of inpatients have been referred either from other hospitals or from physicians not on the hospital's staff.

50 FR 35645: The Department changed the qualifying criteria for referral centers by (1) specifying the methodology for and updating the case mix index thresholds (i.e., either the national case mix index value of 1.1294 or the median urban case mix index value for the hospital's region), and (2) specifying the threshold for the required number of discharges (i.e., either the national discharge criterion of 6,000 or the median number of urban discharges for the hospital's region).

4. Outliers

Public Law 98-21: Requires the Secretary to provide for additional payments to hospitals for atypical cases, "outliers" whose length of stay exceeds the mean by a fixed number of days or a fixed number of standard deviations, whichever is fewer; or cases which do not meet the length of stay criteria but have charges adjusted to cost that exceed a fixed multiple of the DRG rate, or some other fixed dollar amount, whichever is greater. Provides that total outlier payments in a fiscal year must be between 5 and 6 percent of total projected DRG payments for that year.

49 FR 234: For fiscal year 1984, the Department defined a "day" outlier case as one for which the length of stay exceeds the average length of stay for that DRG by the lesser of 20 days or 1.94 standard deviations. The additional payment for each outlier day beyond the threshold would be 60 percent of the hospital's Federal payment amount for the DRG divided by the average length of stay for the DRG. A "cost" outlier case was defined as one for which covered charges, adjusted to operating costs, exceed the greater of 1.5 times the hospital's Federal payment amount for the DRG or $12,000. For cost outliers, the additional payment is 60 percent of the difference between the hospital's adjusted charges for the discharge and the threshold. The Department expected that under these criteria, outlier payments would approximate 6 percent of total payments to hospitals. No provision was made for outlier payments to transferring hospitals.

Public Law 98-369: No provision.

49 FR 34728: For fiscal year 1985, the Department changed the criterion for day outliers to the lesser of 22 days or 1.94 standard deviations. The criterion for cost outliers was changed to the greater of 2 times the hospital's Federal payment amount for the DRG or $13,000. The Department anticipated that these changes would reduce total outlier payments to hospitals from 6 percent to 5 percent of total DRG payments to hospitals. In addition, the Department permitted a hospital that transfers a high cost patient on or after October 1, 1984, to receive cost outlier payments.

50 FR 35645: For fiscal year 1986 the Department changed the criterion for day and cost outliers. If the number of days exceeds the mean length of stay for discharges within the DRG by the lesser of 17 days or 1.94 standard deviations, it would qualify as a day outlier. A discharge will be considered a high cost outlier if the cost of covered services exceeds the greater of 2.0 times the Federal rate for the DRG or $13,500. The thresholds for both day and cost outliers are still set to achieve outlier payments of 5 percent. However, this change did not go in effect because of Public Law 99-107, as amended by Public Law 99-201. In addition, medical review by a Peer Review Organization (PRO) prior to the payment of cost outliers would no longer be required. However, if the PRO finds a hospital has a pattern of inappropriately claiming cost outliers payments, all outlier cases from that hospital would be subject to review, and the review could be conducted prior to payment until the PRO determines that appropriate corrective actions have been taken. The regulations also allow hospitals to request an outlier payment at the time they submit the bill for the discharge rather than waiting until they receive the intermediarie's determination of the payment rate for the discharge.

5. Payment for indirect medical education

Public Law 98-21: Provides for additional payments to hospitals for the indirect costs of medical education, computed at twice the level of the educational adjustment factor provided under regulations in effect as of January 1, 1983—under the former "section 223" cost limits. The Federal portion of a hospital's DRG payments is then increased by this doubled factor.

49 FR 234: The educational adjustment factor in effect as of January 1, 1983 was 6.06 percent for each 0.1 increase, (above zero), in the ratio of a hospital's full-time equivalent interns and residents to its number of beds. Full-time equivalent interns and residents were defined as the sum of those employed for 35 hours or more per week, plus one-half of the total number of interns and residents working less than 35 hours per week. A hospital was allowed to count only interns and residents who were employed by and furnishing services at that hospital (excluding those employed by the hospital but furnishing services at another site).

Under PPS, the Department provided for an education adjustment factor of 11.59 percent (rather than twice the 6.06 percent factor provided in the earlier regulations). The regulations indicated that 11.59 percent was the appropriate increase after recomputing the factor using the data base on which the DRG payments were based, instead of the data base used to calculate the earlier factor. Criteria for determining which interns and residents could be counted were kept the same as in earlier regulations, except interns and residents furnishing services in the hospital but employed by an organization with a long-standing historical medical relationship with the hospital could be included.

Public Law 98-369: Provides that, effective October 1, 1984, all interns and residents who furnish services to a hospital are to be counted for purposes of determining that hospital's indirect medical education adjustment, regardless of whether or not the interns and residents are employees of that hospital.

49 FR 34728: To conform with the change in law, the Department indicated that it would now count full-time interns and residents on the basis of where their services were provided. When working at more than one hospital, each intern's or resident's time would be apportioned to each facility. To avoid the potential for counting interns and residents more than once, the Department is requiring hospitals to submit quarterly reports documenting the time worked by interns and residents. The final lump-sum payment for indirect medical education costs will not be made until the audit of a hospital's cost report is completed.

50 FR 35645: The Department changed the method used to determine the number of beds in a hospital for purposes of counting interns and residents for cost reporting periods beginning on or after October 1, 1984. In addition, the requirement that a hospital provide a quarterly report on the number of interns and residents was replaced with an annual report that counts the number of interns and residents on September 1 (with an additional count on April 15, 1985 for hospitals with cost reporting periods beginning on or after October 1, 1984 and before July 1, 1985). The requirement of counting hours of interns and residents to determine full-time equivalents was deleted. Instead, all interns and residents assigned to the hospital on September 1 (or April 15, 1985 if applicable) will be counted as full-time except for those individuals splitting their time between prospective payment areas and one or more areas excluded from PPS, or spending all their time in excluded areas. The intermediary will be required to review the hospital's documentation to verify the hospital's intern- and resident-to-bed ratio.

6. Payment for nonphysician anesthetists

Public Law 98-21: Provides that all nonphysician services provided to hospital inpatients would be paid for only as hospital services under Part A of Medicare, not under Part B.

49 FR 234: The Department decided to allow a time-limited exception to this provision for the inpatient hospital services of anesthetists employed by physicians. For hospital cost reporting periods beginning before October 1, 1986, physicians could continue to bill Part B for the services of anesthetists if they employed anesthetists as of hospital cost reporting periods ending before September 30, 1983. The costs of these services could not be added to the hospital's base period for purposes of determining the hospital-specific portion of the payment rate during the transition period.

Public Law 98-369: For hospital cost reporting periods beginning October 1, 1984, and ending before October 1, 1987, removes from the definition of "operating costs of inpatient hospital services" the costs of anesthesia services associated with the employment of, or contracts for, CRNA's. Such costs will not be paid for in the DRG rates, but will be passed through and paid for on the basis of reasonable costs. Requires the Secretary to study and report to Congress as soon as is practicable possible methods of reimbursement which will not discourage the use of CRNA's by hospitals. The Conference Report for this legislation indicates that the conferees understand that the administration will modify the regulations to permit physicians who did not employ CRNA's before the specified date to bill Part B for the services of CRNA's whom they have subsequently employed; such billing will terminate on October 1, 1987, rather than October 1, 1986.

49 FR 34728: The Department changed the regulations to incorporate the changes made by Public Law 98–369 (as described above). In addition, the Department clarified that these provisions apply to the costs of anesthesia services provided by qualified nonphysician anesthetists, including anesthesiology assistants as well as CRNA's.

7. Urban/rural boundaries

Public Law 98–21 and 49 FR 234: Provides that hospitals in urban areas be paid different Federal DRG rates than hospitals located in rural areas. Urban areas are defined as those located within a Metropolitan Statistical Area (MSA) or a New England County Metropolitan Area (NECMA). Rural areas are those not classified as urban areas. Provides that during a 3-year transition period hospitals be paid on the basis of Federal DRG payment amounts calculated separately for each of the nine census regions of the country.

Public Law 98–369: Provides that hospitals located in an MSA that crosses census region boundaries be deemed to be in the region in which a majority of the hospitals in that MSA are located or, at the option of the Secretary, the region from which the majority of the Medicare inpatient discharges within that MSA are made. In addition, provides that hospitals located in counties redesignated from urban to rural because of a change in the MSA or NECMA classification system since April 20, 1983, be allowed a 2-year transition to the lower rural payment rates. In the first hospital costs reporting year, the hospital would be paid the rural rate plus two-thirds of the difference between its rural and urban rates. In the second year, it would be paid the rural rate plus one-third of the difference between its rural and urban rates.

49 FR 34728: The Department changed the regulations to conform to the changes in Public Law 98–369 (as described above). However, in determining the appropriate region for hospitals in MSA's which cross more than one region's boundaries, the Department chose not to use the criterion of the number of Medicare inpatient discharges. Also, if an equal number of hospitals within the MSA are located in each census region, the Department provided that such hospitals will be deemed to be in the census region with the higher Federal rate.

REIMBURSEMENT TO PHYSICIANS

Medicare pays for physicians' services on the basis of "*reasonable charges.*" Recently, HCFA has begun calling these charges "*approved charges.*" A reasonable or approved charge for a service (in the absence of unusual circumstances) cannot exceed:

—the *actual charge* for the service;
—the physician's *customary charge* for the service; and
—the *prevailing charge* for similar services in the locality (set at a level no higher than is necessary to cover the 75th percentile of customary charges).

Carriers delineate localities which are usually political or economic subdivisions of a State. There are 225 localities nationwide.

Prior to 1984, customary and prevailing charge fee screens were updated every July 1. The annual update in the prevailing charge screens was subject to an *economic index limitation*. This limitation (expressed as a maximum allowable percentage increase) was tied to economic indexes reflecting changes in operating expenses of physicians and in earnings' levels (see table 6).

TABLE 6.—ECONOMIC INDEX VALUES AND PERCENTAGE INCREASE OVER PRIOR PERIOD

Period	Rates	Percent [1]
July 1, 1973	1.000	
July 1, 1975 to June 30, 1976	1.179	[2] 17.90
July 1, 1976 to June 30, 1977	1.276	8.23
July 1, 1977 to June 30, 1978	1.357	6.35
July 1, 1978 to June 30, 1979	1.426	5.08
July 1, 1979 to June 30, 1980	1.533	7.50
July 1, 1980 to June 30, 1981	1.658	8.15
July 1, 1981 to June 30, 1982	1.790	7.96
July 1, 1982 to June 30, 1983	1.949	8.88
July 1, 1983 to June 30, 1984	2.063	5.85
July 1, 1984 to Mar. 14, 1986	([3])	([3])

[1] Percent increase over prior period.
[2] Large increase due to delay in implementation.
[3] Not applicable due to fee freeze.

The Deficit Reduction Act of 1984 (Public Law 98-369) froze physicians' fees for the 15-month period July 1, 1984, through September 30, 1985. Therefore, the annual increases in the customary and prevailing charge screens otherwise slated for July 1, 1984, did not occur. Subsequent fee screen updates were slated to occur on October 1 of future years beginning in 1985. Public Law 99-107, Public Law 99-155, Public Law 99-181, Public Law 99-189, and Public Law 99-201 extended through March 14, 1986 the payment terms established in DEFRA. Physicians are bound during the extension period by decisions they made regarding participation for the year beginning October 1, 1985, and are subject to the corresponding payment rules.

DEFINITION OF "ASSIGNMENT"

Medicare payments are made either directly to the doctor or to the patient depending upon whether the physician has accepted assignment for the claim. In the case of *assigned claims*, the beneficiary assigns (i.e., transfers) his right to payment from Medicare to the physician. In return, the physician agrees to accept Medicare's "approved" charge determination as payment in full for covered services. The physician bills the program directly and is paid an amount equal to 80 percent of Medicare's approved charge (less any deductible, where applicable). The patient is liable for the 20 percent coinsurance. The physician may not charge the beneficiary (nor collect from another party such as a private insurer) more than the applicable deductible and coinsurance amounts. When a physician accepts assignment, the beneficiary is therefore protected against having to pay any difference between Medicare's approved charge and the physician's actual charge. In fiscal year 1985 approximately 67.7 percent of net claims were paid on an assignment basis. In the case of *nonassigned claims,* payment is made by Medicare directly to the beneficiary on the basis of any itemized bill, paid or unpaid. The beneficiary is responsible for paying the physician's bill. In addition to the deductible and coinsurance amounts, the beneficiary is liable for any difference between the physician's actual charge and Medicare's approved charge.

A physician (except one who becomes a participating physician) may accept or refuse requests for assignment on a bill-by-bill basis, from different patients at different times, or from the same patient at different times. However, he is precluded from fragmenting bills for the purpose of circumventing reasonable charge limitations. He must either accept assignment or bill the patient for all of the services performed on a single occasion. Additionally, when a physician treats a patient who is also eligible for Medicaid, he is essentially required to accept assignment. Total reimbursement for services provided to these dual eligibles is equivalent to the Medicare-determined approved charge with Medicaid reimbursing for the required deductible and coinsurance amounts.

The law specifies that a physician who knowingly, willfully, and repeatedly violates his assignment agreement is guilty of a misdemeanor. The penalty for conviction is a maximum $2,000 fine, up to 6 months' imprisonment, or both.

Public Law 98-369 established the concept of a participating physician. A participating physician is one who agrees to accept assignment for all services provided to all Medicare patients for the forthcoming year (see below).

THE DEFICIT REDUCTION ACT OF 1984

On July 18, 1984, the President signed into law the Deficit Reduction Act of 1984 (Public Law 98-369). This legislation froze physicians' fees under Medicare for the 15-month period, July 1, 1984, through September 30, 1985. Therefore, the annual updating of customary and prevailing charge screens, otherwise scheduled for July 1, 1984, did not occur. Subsequent fee screen updates occur on October 1 of future years beginning in 1985. The update for fiscal year 1986 was postponed through March 15, 1986 because of the Emergency Extension Acts, described above. No catchup was provided to account for any economic index increase to the prevailing charge screen which would otherwise have occurred during the freeze period.

The law established the concept of a *"participating physician."* A participating physician is one who voluntarily enters into an agreement with the Secretary to accept assignment for all services provided to all Medicare patients for a future 12-month period. The first such period began October 1, 1984 and the second such period began October 1, 1985. The law required physicians to sign prior to that date for the 12-month period beginning on that date. After this date, only new physicians in an area or newly licensed physicians could enter into a participation agreement before the next designated time period.

Participating physicians are subject to the freeze. They are, however, permitted to increase their billed charges during the freeze period. While increases in billed charges will not raise Medicare payments during the freeze period, these charges will be reflected in the calculation of future customary fee screen updates. The law includes additional incentives for physicians who agree to become participating physicians. These include the publication of directories identifying participating physicians and the maintenance by carriers of toll-free lines to provide beneficiaries with names of participating physicians.

Nonparticipating physicians (i.e., those who have not signed a voluntary participation agreement) can continue to accept assignment on a case-by-case basis. Nonparticipating physicians cannot, however, increase their billed charges during the freeze period in excess of the amounts charged for the same services during the base period (April 1, 1984, through June 30, 1984). For example, if during the base period a physician charged $22 for a service and Medicare's approved charge was $20, he could bill the beneficiary the 20 percent coinsurance ($4) plus (if he did not accept assignment on this claim) the $2 in excess of the approved charge. During the freeze period, the nonparticipating physician's fee is frozen at $22—he can not raise his charges to beneficiaries in an attempt to circumvent the freeze.

The law requires the Secretary to monitor charges of nonparticipating physicians to determine compliance with the fee freeze. The monitoring is to compare patterns of actual charges of individual physicians with their corresponding charges during the base period (April 1, 1984, through June 30, 1984).

Nonparticipating physicians who are in violation of the freeze could be subject to civil monetary penalties or assessments, exclusion for up to 5 years from the Medicare program, or both. Civil monetary penalties may be imposed in amounts up to $2,000 for each violation. The Secretary is given authority to make restitution to the beneficiary out of the amounts collected for any excess payments made by the beneficiary.

The Secretary may not impose the exclusion penalty in the case of a doctor who is the sole physician serving a community or a physician providing essential specialized services that would otherwise be unavailable. Further, the Secretary, in determining whether to bar a physician from the program, is required to take into account the access of beneficiaries to physicians' services.

The legislation authorized payments from the part B trust fund to carriers of no less than $8 million in fiscal year 1984 and $15 million in fiscal year 1985 to enable them to meet the increased costs of activities required under the new law.

ASSIGNMENT RATE EXPERIENCE

The total number of assigned claims as a percentage of total claims received by medicare carriers is known as the total assignment rate. The net assignment rate was computed in the same manner except that it omitted hospital-based physicians and group-practice prepayment plans which were considered assigned by definition (this distinction is no longer made). The net assignment rate declined since 1968, the year the Department of Health, Education, and Welfare (now the Department of Health and Human Services) began reporting this data. In the mid-1970's the rate leveled off at about 50 percent. Recently the rate has increased significantly. This reflects both the impact of the participating physician program as well as the new requirement that independent laboratory services must be paid on an assigned basis. Table 7 shows the net assignment rates for calendar years 1968–85.

TABLE 7.—NET ASSIGNMENT RATES, BY YEAR, 1968–85

[In percent]

Calendar year	Net assignment rate[1]
1968	59.0
1969	61.5
1970	60.8
1971	58.5
1972	54.9
1973	52.7
1974	51.9
1975	51.8
1976	50.5
1977	50.5
1978	50.6
1979	51.3
1980	51.5
1981	52.3
1982	53.0
1983	53.9
1984	59.0
1985[2]	67.7

[1] Represents the number of assigned claims as a percent of claims received, excluding claims from hospital-based physicians and group-practice prepayment plans that are considered assigned by definition.

[2] Fiscal year 1985.

Source: U.S. Department of Health and Human Services, Social Security Administration, Social Security Bulletin, Annual Statistical Supplement, 1983. p. 209.

The statistics included in table 7 are program-wide data. Net assignment rates also vary geographically. For example, the assignment rate (taken as a percent of dollars) from October 1984–June 1985 ranged from a low of 24.2 percent in South Dakota to a high of 93.2 percent in Rhode Island. The national average during this period was 67.0 percent.

TABLE 8.—NET ASSIGNMENT RATES, FOR SELECTED STATES, (OCTOBER 1984–JUNE 1985)

[In percent]

State	Net assignment rate
South Dakota	24.2
Idaho	27.7
North Dakota	34.4
Nebraska	37.1
Minnesota	37.0
Massachusetts	93.1
Rhode Island	93.2
Pennsylvania	87.3
Michigan	88.5
National	67.0

Source: Conversation with Health Care Financing Administration official.

TABLE 9.—NET ASSIGNMENT RATES, BY REGION, FISCAL YEAR 1985

[In percent]

Region	Net assignment rate
Boston	80.5
New York	70.5
Philadelphia	81.0
Atlanta	65.2
Chicago	65.0
Dallas	62.3
Kansas City	56.9
Denver	52.5
San Francisco	70.4
Seattle	45.7

Source: Conversation with Health Care Financing Administration official.

REASONABLE CHARGE REDUCTIONS

The difference between the physician's billed charge and Medicare's approved or reasonable charge is referred to as the *reasonable charge reduction*. Reasonable charge reductions were made on 83 percent of unassigned claims in 1984. The amount of the reduction was 24 percent of billed charges or $29.69 per approved claim. Beneficiaries were liable for these reduction amounts. (Comparable figures were recorded for assigned claims though the beneficiaries were not liable for the reduction amounts.)

The impact of reasonable charge reductions on unassigned claims is spread unevenly across the population. Nationwide, 68 percent of net claims were paid on an assignment basis in 1985. The AMA center for Health Policy Research reported that for physicians who treated some Medicare patients in 1984, 83.9 percent accepted assignment for at least some patients, an increase over the 75.6 percent recorded in 1982. In 1984, 32.1 percent of physicians always accepted assignments and 16.1 percent never accepted assignment. Medicare program data shows significant variations in assignment rates by physician's specialty, place of service, and type of service. In 1983, the overall dollar assignment rate was 51.6 percent. However, of the 19 specialties that accounted for at least 1 percent of Medicare approved charges, 4 had rates of less than 45 percent [anesthesiology, otolargyngalogy, opthalmology, and general practice]. Assignment rates were higher for inpatient physicians services (54.7 percent) than services furnished in physicians offices (40.4 percent). The rates for medical care services (51.8 percent) was slightly higher than the rate for surgical services (50.1 percent).

BLANK PAGE

BLANK PAGE

BLANK PAGE

TABLE 9.—REASONABLE CHARGE REDUCTIONS FOR MEDICARE PART B (EXCLUDES CLAIMS FROM HOSPITAL-BASED PHYSICIANS AND GROUP-PRACTICE PREPAYMENT PLANS) FOR ASSIGNED AND NOT ASSIGNED CLAIMS, FISCAL YEARS 1975–1984

	1975	1976	1977	1978	1979	1980	1981 [1]	1982 [1]	1983 [2]	1984
Percentage of claims reduced:										
Assigned	68.3	73.1	72.8	73.4	75.8	80.0	82.7	83.1	82.4	80.3
Not assigned	75.6	78.4	77.1	77.2	79.9	83.7	85.7	85.6	83.9	83.1
Percentage reduction in charges for covered services:										
Assigned	16.4	19.0	19.4	19.8	20.8	22.5	23.9	24.3	23.8	24.7
Not assigned	16.6	18.8	19.1	19.1	20.3	22.3	23.7	24.1	23.1	23.6
Amount reduced per approved claim:										
Assigned	$11.13	$13.74	$14.93	$16.11	$18.34	$21.81	$25.84	$29.32	$31.20	$32.62
Not assigned	$13.45	$15.75	$16.53	$16.76	$18.64	$21.96	$25.13	$28.10	$28.48	$29.69

[1] Data excludes Texas Blue Shield for July–September 1981.

[2] Data excludes Texas Blue Shield for October–December 1981.

[3] These data are slightly understated due to underreporting by Equitable.

Source: Department of Health and Human Services, Health Care Financing Administration, Bureau of Program Operations, Part B Reasonable Charge and Denial Activity Report: Fiscal year 1984.

DISTRIBUTION OF PHYSICIAN SERVICES

Tables 10–14 show the distribution of "reasonable charges" or allowed amounts under the CPR system for calendar year 1984 by various categories of services. The figures are tabulations from the 1984 Part B Medicare Annual Data Procedure file, which is a summary of all claims filed with the 56 Medicare carriers and the carriers for Railroad Retirement beneficiaries.

The totals shown will differ from total SMI outlay figures for 1984 shown in the budget for several reasons:

The amounts shown in these tables are allowed amounts, rather than reimbursements--that is, they include both Medicare's and the enrollee's share of reasonable charges.

The amounts shown are for services rendered during calendar year 1984; budget figures are for payments made during the year (sometimes calendar and sometimes fiscal year) regardless of when the services were rendered.

The amounts shown are only for services reimbursed by carriers under the CPR system; hence, they do not include Part B payments to hospital outpatient departments or to risk-based prepaid medical plans.

Further, the amounts shown underestimate what they are supposed to represent by a small amount because some claims for services rendered in 1984 had not been processed by carriers at the time the 1984 files were submitted to HCFA, and because some claims recorded had to be eliminated due to recording errors.

Table 10 illustrates that in 1984, 85 percent of allowed amounts under the CPR system were for physicians' services, and another 4 percent were for the services of limited license practitioners—psychologists, podiatrists, optometrists, audiologists, chiropractors, dentists, and physical therapists. Less than 2 percent went to independent laboratories in 1984, while nearly 10 percent went to suppliers of medical equipment, prosthetics, and ambulance services.

About 50 percent of all CPR allowed amounts were for hospital inpatient services, and nearly 60 percent of allowed amounts for physicians' services were inpatient. The share of physicians' services that are inpatient has dropped in recent years, from nearly 64 percent in 1981, while the share of services provided in hospital outpatient departments or ambulatory surgicenters has increased—from 4.7 percent in 1981 to 8.6 percent in 1984.

Table 11 shows the distribution of spending for physicians' services by specialty. (It excludes limited license practitioners, labs, and suppliers.) In 1984, generalists accounted for nearly 35 percent of spending, nonsurgical specialists for 14 percent, and surgical specialists for 36 percent. Radiologists, anesthesiologists, and pathologists (RAPs) together accounted for 14 percent of allowed amounts, although they accounted for a higher share of submitted charges (15.5 percent). This disparity may be due to the difficulty carriers have had in developing appropriate fee screens for hospital-based physicians, following elimination of the hospital-physician combined-billing option as of October 1983. Osteopathic physicians accounted for less than 1 percent of total allowed amounts for physicians' services.

The major physician specialties treating the Medicare population, in descending order of importance as measured by total allowed amounts, were general internists (19 percent of allowed amounts), ophthalmologists (11 percent), general surgeons (9 percent), radiologists (8 percent), and general practitioners and cardiologists (each about 6 percent).

The share of services provided on an inpatient basis varied by specialty, generally increasing with specialization. About 48 percent of the services of generalists were inpatient in 1984. The inpatient share was 60 percent for nonsurgical specialists and nearly 67 percent for surgical specialists.

Table 12 shows the distribution of spending for physicians' services by type of service. About 36 percent of spending was for medical care (nonsurgical) in 1984. About 41 percent of spending was for surgical procedures in total, adding together the amounts for surgeons, assistant surgeons, and anesthesiologists. About 7 percent was for diagnostic laboratory tests, which would include not only blood chemistry analysis and urinalysis, but also tests such as EKGs. More than 10 percent of spending was for radiology, and nearly 4 percent was for consultations.

Table 13 lists the top 20 individual services, ranked by total allowed amounts on claims submitted by selected physicians for 1984. Certain physician specialties were excluded when recorded fees were unreliable for any reason. The following groups were excluded: unidentified physicians billing from multispecialty groups, radiologists, anesthesiologists, pathologists, psychiatrists, pediatricians, and osteopaths. The most important exclusion is amounts for the sevices of anesthesiologists, since there would typically be a charge for anesthesiology for the surgical procedures included in Table 13. The amounts for surgical procedures include claims by both the primary surgeon and any assistant surgeons, but not the amounts for anesthesiologists.

The top 20 services (out of more than 7,000) accounted for 35 percent of all spending for all physicians' services in 1984. Cataract extraction with implantation of an intraocular lens was the top-ranked procedure, accounting by itself for more than 5 percent of total allowed amounts for physicians' services. Other surgical procedures in the top 20 included transurethral resections of the prostate (TURP), hip replacement or arthroplasty, coronary artery bypass surgery, thromboendarterectomy, and repair of a femoral fracture. The remaining services in the top 20 were either visits, consultations, or EKGs.

Table 14 presents total allowed amounts for selected groups of generic services, and shows the percent of total allowed amounts for all physicians' services accounted for by each group. As in Table 13, certain physicians' services—most notably for anesthesiologists—are not included in the allowed amounts for each service group. No attempt was made to define and rank all possible service groups, so that there may be other important service groups that do not appear in the table. For example, diagnostic radiology accounts for more than 9 percent of allowed amounts for physicians' services (from Table 12), but radiological services do not appear in Table 14 because radiologists were one of the specialties eliminated before calculating allowed amounts by service code.

The 21 service groups shown in Table 14 accounted for more than 46 percent of all allowed amounts for all physicians' services in 1984. The single most costly group was for hospital visits (accounting for nearly 14 percent of total allowed amounts for physicians' services), followed by office visits (11 percent). Cataract surgery of all types accounted for 6.5 percent of total allowed amounts for physicians' services, compared to 5.2 percent for the single most common cataract procedure shown in Table 13. EKGs accounted for 2.6 percent of total allowed amounts when all codes for the procedure are considered, compared to only 1.6 percent of allowed amounts accounted for by the single most common EKG code billed.

TABLE 10.—ALLOWED AMOUNTS FOR CPR CLAIMS, BY TYPE OF PROVIDER, 1984

Type of provider	Allowed amounts (millions)	Percent of total	Percent inpatient
Physicians	$17,326.8	85.0	59.0
Limited license practitioners [1]	797.8	3.9	10.2
Laboratories	362.7	1.8	1.0
Medical suppliers [2]	1,896.8	9.3	.8
All providers [3]	20,384.0	100.0	50.6

[1] Includes psychology, podiatry, optometry, audiology, chiropractice, dentistry, and physical therapy.

[2] Includes suppliers of medical equipment prosthetics, and ambulance services.

[3] Total does not include charges for hospital outpatient department facility fees or for risk-based prepaid medical plans since these are not reimbursed under the CPR system.

Source: CBO tabulations from 1984 pt. B medicare annual data procedure file.

TABLE 11.—ALLOWED AMOUNTS FOR PHYSICIANS' SERVICES, BY PHYSICIAN SPECIALTY, 1984

Specialty	Allowed amounts (millions)	Percent of total	Percent inpatient
Generalists:			
General practice	$1,070.7	6.2	36.3
Family practice	678.3	3.9	38.5
Internal medicine	3,215.5	18.6	51.9
Pediatrics	14.2	.1	34.5
Clinics	1,034.0	6.0	52.9
All generalists	6,012.7	34.7	47.7
Nonsurgical specialists:			
Allergy	86.0	.5	54.2
Cardiology	1,020.4	5.9	66.8
Dermatology	229.6	1.3	3.7
Gastroenterology	274.2	1.6	66.5
Neurology	223.9	1.3	64.8
Psychiatry	225.2	1.3	69.3
Physical medicine	57.5	.3	64.9
Pulmonary disease	196.2	1.1	78.6

TABLE 11.—ALLOWED AMOUNTS FOR PHYSICIANS' SERVICES, BY PHYSICIAN SPECIALTY, 1984—Continued

Specialty	Allowed amounts (millions)	Percent of total	Percent inpatient
Geriatrics	1.4	(1)	42.9
Nephrology	162.0	.9	51.9
All nonsurgical specialists	2,476.4	14.3	60.4
Surgical specialists:			
General surgery	1,507.7	8.7	81.5
Otolaryngology	193.2	1.1	41.9
Neurosurgery	198.3	1.1	85.6
Gynecology	133.4	.8	63.9
Ophthalmology	1,936.6	11.2	42.0
Orthopedic surgery	943.4	5.4	73.6
Plastic surgery	79.8	.5	54.1
Colon and rectal surgery	30.5	.2	57.7
Thoracic surgery	618.9	3.6	92.5
Urology	626.2	3.6	74.6
Hand surgery	3.4	(1)	61.8
All surgical specialists	6,271.4	36.2	66.6
Radiology	1,438.9	8.3	51.0
Anesthesiology	833.3	4.8	93.4
Pathology	164.3	.9	72.2
Osteopathy	129.8	.7	32.8
All physicians	17,326.8	100.0	59.0

[1] Less than 0.05 percent.

Source: CBO tabulations from 1984 pt. B medicare annual data procedure file.

TABLE 12.—ALLOWED AMOUNTS FOR PHYSICIANS' SERVICES, BY TYPE OF SERVICE, 1984

Type of service	Allowed amounts (millions)	Percent of total	Percent inpatient
Medical care	$6,315.3	36.4	49.3
Surgery	5,888.1	34.0	75.9
Assistance at surgery	314.8	1.8	89.2
Anesthesia	840.3	4.8	94.2
Diagnostic laboratory tests	1,240.8	7.2	26.6
Diagnostic radiology	1,578.5	9.1	44.3
Therapeutic radiology	235.1	1.4	18.5
Consultations [1]	621.6	3.6	77.7
Other [2]	292.3	1.7	2.8
All services	17,326.8	100.0	59.0

[1] Includes first and second opinions for surgery.

[2] Includes treatment for renal patients, pneumococcal vaccine, and medical supplies, among other things.

Source: CBO tabulations from 1984 pt. B medicare annual data procedure life.

TABLE 13.—THE TOP 20 SERVICES BILLED BY PHYSICIANS UNDER MEDICARE, 1984

Service code and description	Allowed amounts (millions) [1]	Percent of total [2]
Top 20 services:		
66980—Cataract extraction and IOL	$894.4	5.2
90250—Hospital visit, limited	652.5	3.8
90260—Hospital visit, intermediate	631.0	3.6
90050—Office visit, intermediate	593.2	3.4
90050—Office visit, limited	502.8	2.9
90220—Initial hospital visit, comprehensive	329.7	1.9
90240—Hospital visit, brief	293.4	1.7
90620—Consultation, comprehensive	289.8	1.7
52601—TURP	237.2	1.4
90040—Office visit, brief	221.7	1.3
93000—EKG (12 leads)	217.1	1.3
90270—Hospital visit, extended	182.2	1.1
90070—Office visit, extended	145.4	.8
27130—Hip replacement	135.6	.8
90020—Office visit, comprehensive, new patient	127.0	.7
90080—Office visit, comprehensive	127.0	.7
33512—Cornary artery bypass (3)	124.6	.7
35301—Thromboendarterectomy	104.2	.6
27244—Femoral fracture	104.1	.6
90215—Initial hospital visit, intermediate	102.5	.6
Sum	6,015.3	34.7

---

[1] Amounts for surgical procedures include fees for primary and assistant surgeons, but not for anesthesiologists. Allowed amounts for services in carrier regions that were using HCPCS were inflated to account for service totals in the 7 carrier regions that were not using HCPCS in 1984.

[2] The total allowed amount for all physicians' services in all carrier regions in 1984 was $17,326.8 million.

Source: CBO tabulation from 1984 medicare annual data procedure file.

TABLE 14.—ALLOWED AMOUNTS FOR SELECTED GROUPS OF PHYSICIANS' SERVICES, 1984

Service group	Allowed amounts (millions)[1]	Percent of total[2]
Hospital visits	$2,372.7	13.7
Office visits	1,938.6	11.2
Cataract surgery	1,126.2	6.5
EKG's	453.3	2.6
Transurethral surgery	340.3	2.0
Coronary artery bypass	308.9	1.8
Hip arthroplasty	192.0	1.1
Cardiac catheterization	166.0	1.0
Colonoscopy	163.7	.9
Hemodialysis/capd	147.5	.9
Thromboendarterectomy	126.7	.7
Knee arthroplasty	110.3	.6
Pacemaker implant/removal	109.6	.6
Vein bypass	102.5	.6
Emergency room visits	94.7	.5
SNF visits	87.2	.5
Nursing home visits	81.4	.5
Home visits	43.5	.3
Prostatectomy	25.4	.1
EEG's	18.1	.1
Pacemaker tests	16.2	.1
Sum	8,024.6	46.3

[1] Amounts for surgical procedures include fees for primary and assistant surgeons, but not for anesthesiologists. Allowed amounts for services in carrier regions that were using HCPCS were inflated to account for service totals in the seven carrier regions that were not using HCPCS in 1984.

[2] The total allowed amount for all physicians' services in all carrier regions in 1984 was $17,326.8 million.

Source: CBO tabulation from 1984 medicare annual data procedure file.

APPENDIX E. BRIEF EXPLANATION OF MEDICAID PROGRAM AND INTERACTION WITH AFDC, SSI, AND MEDICARE PROGRAMS

Medicaid

Medicaid, authorized under title XIX of the Social Security Act, is a Federal-State matching program providing medical assistance for low-income persons who are aged, blind, disabled, or members of families with dependent children. Within Federal guidelines, each State designs and administers its own program. Thus there is substantial variation among the States in terms of persons covered, types, and scope of benefits offered, and amounts of payments for services.

Medicaid eligibility is directly linked to eligibility under programs within the jurisdiction of the Committee on Ways and Means, namely AFDC and SSI. Further, some poor aged persons are covered under both the Medicare and Medicaid programs.

ELIGIBILITY

Eligibility for Medicaid is linked to actual or potential receipt of cash assistance under the federally assisted Aid to Families With Dependent Children (AFDC) program and the Federal Supplemental Security Income (SSI) program for the aged, blind, and disabled; there are two classes of eligibility under medicaid: categorically needy and medically needy.

CATEGORICALLY NEEDY

All States[1] cover the categorically needy under their Medicaid programs. In general, these are persons receiving assistance under AFDC or SSI. States have the option of limiting Medicaid coverage of SSI recipients by requiring them to meet any more restrictive eligibility criterion that was in effect on January 1, 1972 (before implementation of SSI). States choosing the more restrictive criteria must allow applicants to deduct medical expenses from income in determining eligibility. Fourteen States currently employ more restrictive criteria.

These States are:

Connecticut
Hawaii
Illinois
Indiana
Minnesota
Missouri
Nebraska
New Hampshire
North Carolina
North Dakota
Ohio
Oklahoma
Utah
Virginia

---

[1] Arizona does not operate a traditional Medicaid Program. Beginning October 1, 1982, it began implementation of a demonstration project under which a specified set of services are provided to the indigent primarily on a prepaid basis.

States may also cover additional persons as categorically needy; these include persons receiving State supplement SSI payments (SSP) or persons who would be eligible for cash assistance except that they are residents in medical institutions (such as skilled nursing facilities).

States must extend Medicaid eligibility to aged, blind, and disabled persons who were eligible for Medicaid in December 1973 as long as they meet the 1973 criteria; persons receiving mandatory State supplementary payments; persons who would be eligible for cash aid except for a State barrier disallowed by Medicaid law; and persons actually receiving SSI and/or SSP payments who lose their eligibility for SSI or SSP solely because of a cost-of-living social security increase provided they would otherwise still be eligible for such aid. Medicaid coverage must also be extended for 4 additional months to certain families whose AFDC cash assistance has been terminated provided they had received AFDC for at least 3 of the preceding 6 months; this extension applies to families whose AFDC coverage has been terminated due to increased income from or hours of employment.

Automatic Medicaid coverage for poor families is generally linked to the receipt of AFDC cash assistance, thereby restricting coverage for certain persons. This occurs in part because AFDC assistance is available only to families where one parent is absent, incapacitated, or in certain States, unemployed. To receive AFDC, a family must also meet a cash assistance standard established by each State.

Despite these restrictions, the law requires States to cover specified groups of persons even though they are not actually receiving cash payments under the AFDC program. Effective October 1, 1984, States are required to provide coverage to the following groups of persons meeting AFDC income and resources requirements:

—First time pregnant women from the time of medical verification of pregnancy;

—Pregnant women in two-parent families where the principal breadwinner is unemployed, from the medical verification of pregnancy; and

—All children born on or after October 1, 1983, up to age 5.

States are also required to extend Medicaid coverage to families who lose their eligibility for AFDC and therefore Medicaid because the disregard provision of the AFDC program can no longer be applied to them. This AFDC provision requires States, for purposes of calculating AFDC benefits during the first 4 months of a job, to disregard one-third of monthly earnings that remain after deduction of the first $30 in monthly earnings, a standard allowance, and child care costs up to a specified limit. States are now required to provide 9 months of Medicaid coverage (and may at their option extend coverage for an additional 6 months) to families who lose their AFDC eligibility because of the expiration of the one-third disregard. Families who lost eligibility prior to October 1, 1984, are also eligible for Medicaid for the same time period, provided:

—They disclose any private health insurance coverage at the time of application;

—They apply within 6 months from the date the implementing regulations become final; and

—They would have been continuously eligible for AFDC if the $30 plus one-third disregard had been applied.

States may also extend coverage to additional population groups. A State may extend coverage to two-parent families where one parent is unemployed (even if such families are ineligible for AFDC in the State). States are required to extend coverage to all children under age 5 born on or after October 1, 1983, provided they meet the AFDC cash assistance standards. States may also cover all or specified categories of children under age 18 (or, at State option, under age 19, age 20, or age 21), providing they meet the AFDC cash assistance standards. For example, States may cover children in foster care or subsidized adoptions.

MEDICALLY NEEDY

States may also cover the medically needy under their Medicaid programs. These are persons whose income is slightly in excess of the standards for cash assistance, provided that: (1) they are aged, blind, disabled, or members of families with dependent children, and (2) their income (after deducting incurred medical expenses) falls below the State standard. As of December 1, 1985, 38 States and jurisdictions provided medically needy coverage. These States are:

Arkansas
California
Connecticut
Washington, D.C.
Georgia (limited program)
Hawaii
Illinois
Iowa (limited program)
Kansas
Kentucky
Louisiana
Maine
Maryland
Massachusetts
Michigan
Minnesota
Montana
Nebraska
New Hampshire
New York
North Carolina
North Dakota
Northern Mariana Islands
Oklahoma
Oregon (limited program)
Pennsylvania
Puerto Rico
Rhode Island
South Carolina (limited program)
Tennessee (limited program)
Texas (limited program)
Utah
Vermont
Virgin Islands
Virginia
Washington
West Virginia
Wisconsin

Prior to enactment of Public Law 97-35, States having medically needy programs were required to offer comparable coverage to all four groups (that is, aged, blind, disabled, and members of families with children). Public Law 97-35 provided that, if a State offers medically needy coverage to any group, it must at a minimum provide ambulatory services to children and prenatal and delivery services for pregnant women.

MEDICARE-MEDICAID RELATIONSHIP

About 12 percent of aged and disabled Medicare enrollees are also covered by State Medicaid programs. While coverage under Medicare part A (hospital insurance) is automatic for most aged and certain disabled having insured status under the Social Security system, coverage under Medicare part B (supplementary medical insurance) requires the payment of a monthly premium. Most States make this payment for their Medicaid eligibles under a buy-in agreement. While States may buy-in to Medicare for both their cash-assistance and medically needy populations who are eligible for Medicare, Federal matching for premium payments is only available for the cash assistance group. If a State does not buy-in to part B coverage, it cannot receive Federal matching payments for services that would have been covered under Medicare if there had been a buy-in arrangement. Two States and two jurisdictions do not currently have a buy-in arrangement. These are: Louisiana, Wyoming, Puerto Rico, and Northern Mariana Islands.

Medicaid basically supplements Medicare for persons who are dually eligible. Medicare makes the primary payment while State Medicaid expenditures are limited to payments for deductibles, coinsurance, and services not covered by Medicare.

SERVICES

States are required to offer the following services to categorically needy recipients under their Medicaid programs: inpatient and outpatient hospital services; laboratory and X-ray services; skilled nursing facility (SNF) services for those over age 21; home health services for those entitled to SNF care; early and periodic screening, diagnosis, and treatment (EPSDT) for those under age 21; family planning services and supplies; and physicians' services. They may also provide additional medical services such as drugs, intermediate care facility (ICF) services, eyeglasses, inpatient psychiatric care for individuals under age 21 or over 65. States are permitted to establish limitations on the amount of care provided under a service category (such as limiting the number of days of covered hospital care or number of physicians' visits).

Federal law establishes the following requirements for coverage of the medically needy: (1) if a State provides medically needy coverage to any group it must provide ambulatory services to children and prenatal and delivery services for pregnant women; (2) if a State provides institutional services for any medically needy group it must also provide ambulatory services for this population group; and (3) if the State provides medically needy coverage for persons in intermediate care facilities for the mentally retarded (ICF/MRs), it must offer to all groups covered in its medically needy program the same mix of institutional and noninstitutional services as required under prior law (that is, either all of the mandatory services or alternatively the care and services listed in 7 of the 17 paragraphs in the law defining covered services).

FINANCING

The Federal Government helps States share in the cost of Medicaid services by means of a variable matching formula which is periodically adjusted. The matching rate, which is inversely related to a State's per capita income, can range from 50 percent to 83 percent though currently the highest rate is 78.42 percent. Federal matching for the territories is set at 50 percent with a maximum dollar limit placed on the amount each territory can receive. The Federal share of administrative costs is 50 percent for all States except for certain items where the authorized rate is higher.

Public Law 97-35 provided that the amount of Federal matching payments to which a State was otherwise entitled was to be reduced by 3 percent in fiscal year 1982, 4 percent in fiscal year 1983, and 4.5 percent in fiscal year 1984. A State could lower the amount of its reduction by 1 percentage point for each of the following: (1) operating a qualified hospital cost review program; (2) sustaining an unemployment rate exceeding 150 percent of the national average; and (3) demonstrating recoveries from fraud and abuse activities (and with respect to fiscal year 1982, third-party recoveries) equal to 1 percent of Federal payments. A State was entitled to a dollar-for-dollar offset in its reductions if total Federal Medicaid expenditures in a year fell below a specified target amount. In no case could the amount recovered exceed the total amount of reductions. Public Law 97-35 also provided States with increased flexibility in designing and administering their programs.

REIMBURSEMENT POLICY

States have considerable leeway in setting reimbursement levels for services. They are required to reimburse hospitals, skilled nursing facilities, and intermediate care facilities at rates that are reasonable and adequate to meet the cost which must be incurred by efficiently and economically operated facilities in order to meet applicable laws and quality and safety standards. In developing their payment rates for hospitals, States are required to take into account the situation of facilities which serve a disproportionate number of low-income patients. Further, hospital payment rates must be sufficient to assure that Medicaid patients have reasonable access to services of adequate quality.

Practitioners and providers are required to accept payments under the program as payment in full for covered services except where nominal cost-sharing charges may be required. States may generally impose such charges with certain exceptions. They are precluded from imposing such charges on services for children under 18, services related to pregnancy, family planning or emergency services, HMO services for the categorically needy, and services provided to SNF or ICF inpatients who are required to spend all of their income for medical care except for a personal needs allowance.

ADMINISTRATION

Medicaid is a State-administered program. At the Federal level, the Health Care Financing Administration (HCFA) of the Department of Health and Human Services is responsible for overseeing State operations.

Federal law requires that a single State agency be charged with administration of the Medicaid program. Generally, that agency is either the State welfare agency, the State health agency, or the umbrella human resources agency. The single State agency may contract with other State entities to conduct some program functions. Further, States may process claims for reimbursement themselves or contract with fiscal agents or health insuring agencies to process these claims.

PROGRAM DATA

Federal Medicaid outlays are estimated (in the absence of legislative changes) at $24.7 billion in fiscal year 1986, a 9.0 percent increase over the $22.7 billion estimated for fiscal year 1985.

The primary factor contributing to program increases has been inflation, particularly inflation in medical care prices. However, in recent years States have taken significant steps to slow program growth. Of particular importance are new State initiatives and experimentation in the organization, financing, and reimbursement of services.

TABLE 1.—HISTORY OF MEDICAID PROGRAM COSTS

Fiscal year	Total		Federal		State	
	Dollars (in millions)	Percent increase	Dollars (in million)	Percent increase	Dollars (in millions)	Percent increase
1966 [1]	$1,658		$789		$869	
1967 [1]	2,368	42.9	1,209	53.2	1,159	33.5
1968 [1]	3,659	55.6	1,837	51.9	1,849	59.5
1969 [1]	4,166	13.0	2,276	23.9	1,890	2.2
1970 [1]	4,852	16.5	2,617	15.0	2,235	18.3
1971	6,176	27.3	3,374	28.9	2,802	25.3
1972 [2]	8,434	36.6	4,361	29.2	4,074	45.4
1973	9,111	8.0	4,998	14.6	4,113	1.0
1974	10,229	12.3	5,833	16.7	4,396	6.9
1975	12,637	23.5	7,060	21.0	5,578	26.9
1976	14,644	15.9	8,312	17.7	6,332	13.5
TQ [3]	4,106	NA	2,354	NA	1,752	NA
1977	17,103	[4] 16.8	9,713	[4] 16.9	7,389	[4] 16.7
1978	18,949	10.8	10.680	10.0	8,269	11.9
1979	21,755	14.8	12,267	14.9	9,489	14.8
1980	25,781	18.5	14,550	18.6	11,231	18.4
1981	30,377	17.8	17,074	17.3	13,303	18.4
1982	32,446	6.8	17,514	2.6	14,931	12.2
1983	34,956	7.7	18,985	8.4	15,971	7.0
1984	37,631	7.7	20,094	5.8	17,537	9.8

1985[5]	41,150	10.9	[6] 22,655	12.7	[6] 18,495	5.5
1986 (current law estimate) [5]	44,860	9.0	24,686	9.0	20,175	9.1
1987 (current law estimate) [5]	47,786	6.5	25,880	4.8	21,906	8.6

---

[1] Includes related programs which are not separately identified though for each successive year a larger portion of the total represents Medicaid expenditures. As of Jan. 1, 1970, Federal matching was only available under Medicaid.

[2] Intermediate care facilities (ICFs) transferred from the cash assistance programs to Medicaid effective January 1, 1972; data for prior periods do not include these costs.

[3] Transitional quarter (beginning of Federal fiscal year moved from July 1 to Oct. 1).

[4] Represents increase over fiscal year 1976, i.e., five calendar quarters.

[5] Includes transfer of function of State fraud control units to Medicaid from Office of Inspector General.

[6] Temporary reductions in Federal payments authorized for fiscal years 1982–84 will be discontinued in fiscal year 1985.

Note: Totals may not add due to rounding.

Sources: "Budget of the U.S. Government" fiscal years 1969–87, and conversations with officials of Health Care Financing Administration.

TABLE 2.—UNDUPLICATED NUMBER OF MEDICAID RECIPIENTS BY ELIGIBILITY CATEGORY, FISCAL YEARS 1972–87

[Number in thousands]

Fiscal year	Total	Aged 65 or over	Blindness	Permanent and total disability	Dependent children under age 21	Adults in families with dependent children	Other [1]
Ending June:							
1972	17,606	3,318	108	1,625	7,841	3,137	1,576
1973	19,622	3,496	101	1,804	8,659	4,066	1,495
1974	21,462	3,732	135	2,222	9,478	4,392	1,502
1975	22,007	3,615	109	2,355	9,598	4,529	1,800
1976	22,815	3,612	97	2,572	9,924	4,774	1,836
Ending September:							
1977 [2]	22,831	3,636	92	2,710	9,651	4,785	1,959
1978	21,965	3,376	82	2,636	9,376	4,643	1,852
1979	21,520	3,364	79	2,674	9,106	4,570	1,727
1980 [3]	21,605	3,440	92	2,819	9,333	4,877	1,499
1981 [3]	21,980	3,367	86	2,993	9,581	5,187	1,364
1982 [3]	21,603	3,240	84	2,806	9,563	5,356	1,434
1983 [3]	21,494	3,247	76	2,956	9,418	5,467	1,325
1984 [3]	21,915	3,097	74	2,865	9,221	5,347	1,311
1985 [3]	22,183	3,124	79	2,838	9,423	5,516	1,203
1986 (current law estimate) [3]	22,894	3,226	81	2,934	9,720	5,632	1,301
1987 (current law estimate) [3]	23,599	3,317	84	3,030	9,996	5,772	1,400

[1] This category is composed predominantly of children not meeting the definition of "dependent" children, i.e., "Ribicoff children."

[2] Fiscal year 1977 began in October 1976 and was the first year of the new Federal fiscal cycle. Before 1977, the fiscal year began in July.

[3] Beginning in fiscal year 1980, recipients' categories do not add to the unduplicated total due to the small number of recipients that are in more than one category during the year.

Sources: Social Security Bulletin, Annual Statistical Supplement, 1983, SSA Publication No. 13-11700. Fiscal years 1985–87 data from HCFA, unpublished tables.

TABLE 3.—TOTAL AND PER CAPITA MEDICAID PAYMENTS FOR CATEGORICALLY NEEDY AND MEDICALLY NEEDY, PRELIMINARY ESTIMATES, FISCAL YEAR 1984

	Amount (in millions)	Percent	Per capita amount
Categorically needy:			
Receiving cash payments	$17,563.6	51.8	$1,066
Aged	3,191.3	9.4	1,845
Blind	151.1	0.4	2,185
Disabled	7,091.6	20.9	3,227
Children in AFDC families	3,378.3	10.0	414
Adults in AFDC families	3,751.4	11.1	847
Not receiving cash payments	7,037.0	20.8	2,772
Aged	4,261.9	12.6	6,192
Blind	34.4	0.1	6,308
Disabled	2,066.3	6.1	7,099
Children in AFDC families	203.4	0.6	284
Adults in AFDC families	212.9	0.6	398
Other title XIX recipients	258.1	0.8	804
Total, categorically needy	24,600.6	72.6	1,294
Medically needy:			
Aged	5,366.0	15.8	6,545
Blind	33.5	0.1	7,276
Disabled	2,599.5	7.7	7,521
Children in AFDC families	397.5	1.2	490
Adults in AFDC families	456.6	1.3	716
Other title XIX recipients	441.0	1.3	509
Total, medically needy	9,294.1	27.4	2,691
Total	33,894.7	100.0	1,569

Note: Totals may not add due to rounding. Based on data which include the territories.

Source: Health Care Financing Administration (HCFA), DHHS, unpublished tables.

TABLE 4.—MEDICAID RECIPIENTS AND PAYMENTS BY BASIS OF ELIGIBILITY, PRELIMINARY ESTIMATES, FISCAL YEAR 1984

	Amount (in millions)	Percent of total	Recipients (in thousands)	Percent of total	Per capita payment
Aged	$12,819.2	37.8	3,238.2	15.0	$3,958.8
Blind	218.9	0.6	79.2	0.4	2,765.1
Disabled	11,757.4	34.7	2,834.0	13.1	4,148.8
Dependent children under 21	3,979.2	11.7	9,680.7	44.8	411.0
Adults in families with dependent children	4,420.8	13.0	5,599.3	25.9	789.5
Other	699.1	2.1	1,186.9	5.5	589.0
Total	33,894.7	100.0	21,603.7	100.0	1,568.9

[1] Total is unduplicated count of recipients. A small number of recipients are in more than one category during the year.

[2] The percent of recipients is based upon the unduplicated count.

Note: Totals may not add due to rounding. Based on data which includes the territories.

Source: Health Care Financing Administration (HCFA), DHHS, unpublished tables.

TABLE 5.—MEDICAID PAYMENTS BY SERVICE CATEGORY, FISCAL YEAR 1984

	Amount (in millions)	Percent
Inpatient hospital	$9,892.0	29.2
General	(8,848.6)	(26.1)
Mental [1]	(1,043.3)	(3.1)
Skilled nursing facilities	4,810.3	14.2
Intermediate care facilities [1]	10,078.5	29.7
Facilities for mentally retarded [1]	(4,255.8)	(12.6)
Other [1]	(5,822.6)	(17.2)
Physician	2,225.6	6.6
Dental [1]	468.7	1.4
Other practitioner [1]	232.8	0.7
Outpatient hospital	1,646.2	4.9
Clinic [1]	589.0	1.7
Lab and X-ray	201.2	0.6
Home health	764.8	2.3
Prescribed drugs [1]	1,968.9	5.8
Family planning	164.2	0.5
Early and periodic screening	78.5	0.2
Rural health clinic	6.1	([3])
Other [2]	767.9	2.3
Total	33,894.7	100.0

[1] Optional services.

[2] Predominantly optional services.

[3] Less than 0.1.

Note: Totals may not add due to rounding. Based on data which include the territories.

Source: HCFA, unpublished tables.

TABLE 6.—AVERAGE EXPENDITURE PER RECIPIENT FOR CATEGORICALLY NEEDY PERSONS WHO ARE ALSO RECEIVING AN SSI OR AFDC PAYMENT, BY BASIS OF ELIGIBILITY, BY STATE, PRELIMINARY ESTIMATES, FISCAL YEAR 1984

[In dollars]

State	Total	SSI aged	SSI blind	SSI disabled	AFDC child	AFDC adult
United States	1,091	1,882	2,191	3,288	421	875
All jurisdictions	1,066	1,845	2,185	3,227	414	847
Alabama	800	835	1,218	1,683	303	716
Alaska	2,782	7,604	5,571	10,539	666	1,272
Arkansas	1,208	1,264	1,979	2,495	411	764
California	825	833	1,595	2,236	360	720
Colorado	1,611	2,853	15,039	6,947	381	939
Connecticut	857	1,475	2,491	3,057	510	1,091
Delaware	986	2,391	2,629	3,540	390	782
District of Columbia	1,301	6,857	2,156	4,002	311	610
Florida	912	1,242	1,564	2,358	287	621
Georgia	1,050	1,315	1,715	2,294	346	864
Hawaii	821	1,776	2,879	3,252	373	913
Idaho	648	984	508	1,836	388	892
Illinois	1,094	2,706	2,793	4,913	466	946
Indiana	1,291	3,774	3,128	5,548	527	1,321
Iowa	1,044	1,683	1,375	3,985	456	901
Kansas	1,082	2,329	2,201	4,685	405	792
Kentucky	806	926	1,318	1,798	285	598
Louisiana	1,388	1,731	2,473	3,825	650	1,030

BEST COPY AVAILABLE

TABLE 6.—AVERAGE EXPENDITURE PER RECIPIENT FOR CATEGORICALLY NEEDY PERSONS WHO ARE ALSO RECEIVING AN SSI OR AFDC PAYMENT, BY BASIS OF ELIGIBILITY, BY STATE, PRELIMINARY ESTIMATES, FISCAL YEAR 1984—Continued

[In dollars]

State	Total	SSI aged	SSI blind	SSI disabled	AFDC child	AFDC adult
Maine	947	1,559	1,353	2,732	334	830
Maryland	1,052	2,505	2,246	2,561	550	1,094
Massachusetts	1,457	1,997	2,001	4,553	456	972
Michigan	911	2,062	2,562	3,741	380	1,016
Minnesota	1,585	4,780	6,125	9,586	429	953
Mississippi	745	881	1,261	1,492	334	771
Missouri	640	1,103	1,363	1,541	421	745
Montana	987	1,852	1,839	2,366	328	964
Nebraska	1,246	3,024	4,642	4,248	484	866
Nevada	1,640	1,137	2,503	5,641	547	1,038
New Hampshire	990	847	3,425	3,810	291	597
New Jersey	1,093	2,316	2,458	3,621	433	1,026
New Mexico	1,222	1,335	3,715	3,198	423	1,078
New York	1,729	4,788	7,577	5,165	541	966
North Carolina	1,085	2,493	2,668	3,383	385	821
North Dakota	1,872	4,030	1,777	5,819	639	1,230
Ohio	1,029	2,798	2,560	4,271	479	1,016
Oklahoma	808	1,768	1,514	2,302	251	417
Oregon	832	2,279	1,995	2,345	347	886
Pennsylvania	1,032	2,782	1,528	3,492	360	718
Rhode Island	949	2,486	1,614	3,174	312	611
South Carolina	805	945	1,168	1,742	222	768

BLANK PAGE

BLANK PAGE

BLANK PAGE

South Dakota	1,880	2,598	2,167	5,884	542	939
Tennessee	1,165	1,091	1,760	2,150	609	1,074
Texas	1,363	1,541	2,181	3,800	427	1,157
Utah	1,124	2,618	1,913	5,873	344	794
Vermont	1,323	2,038	1,955	4,536	357	817
Virginia	1,067	1,958	2,071	3,008	332	822
Washington	1,117	4,967	5,165	14,933	440	904
West Virginia	474	937	1,234	999	223	443
Wisconsin	1,034	1,698	4,620	4,062	441	812
Wyoming	1,044	2,139	1,551	3,018	450	905
Puerto Rico	74	0	262	90	91	67
Virgin Islands	332	462	139	923	156	604

Source: HCFA, DHHS, unpublished tables.

Section 5. OASDHI Financing

OVERVIEW

This section presents a discussion of social security financing, divided into 4 main parts: current law; a brief history of the financing structure, including a discussion of the impact of indexing and of the 1977 and later amendments; the status of the OASDHI (old age, survivors, disability, and hospital insurance) trust funds under four alternative economic scenarios over the period from 1984 to 1991; and a brief discussion of the long-term financial status of OASDHI funds.

CURRENT LAW FINANCING

The social security programs (OASDHI) are financed through the payroll tax and from income taxes paid on social security benefits on a pay-as-you-go basis; that is, current income to the system goes out directly to meet current benefit obligations. Any funds collected in excess of the amount needed to make benefit payments are held in the trust funds as reserves, and are invested in Government securities. These reserves serve as a cushion against temporary shortfalls in revenues or large increases in outlays due to economic fluctuations; the reserves also provide interest revenues to the trust funds.

Trust fund income is dependent on the amount of wages covered by social security on which contributions are made according to the payroll tax rate for each year. Benefit outlays are made under a permanent appropriation, in the amount to which beneficiaries are entitled based on their earnings records, and are not limited to the amount of revenue flowing into the trust fund from contributions and interest. If, as has occurred in the recent past, yearly income is insufficient to cover benefit payments, reserve funds are used to make up the difference. As a result of changes made in the Social Security Amendments of 1983, to insure adequate financing of social security benefits and to provide automatic adjustments in the cost of living benefit increase dependent on the level of trust fund reserves, the OASDI trust funds are currently showing a surplus of revenues over outlays, and will continue to do so for the next 25 years.

The payroll tax (known as FICA, or Federal Insurance Contributions Act) is levied on wages in employment covered by social security, with portions of the total tax rate allocated by law to each of the three trust funds (OASI, DI and HI). All persons who work in covered employment pay this mandatory tax on their earnings up to a maximum dollar amount (known as the contribution and benefit base, or earnings base). Employers pay an equal tax rate for these workers. Beginning in 1984 self-employed workers pay social security taxes that are equivalent to the combined employer-employee rate and receive a partial credit against that tax. Under current law, as of January 1986, the tax paid by both the employer and employee is 7.15 percent of the first $42,000 of earnings (self-employed persons pay 14.30 percent). Future increases in the tax rates are set in the law, while increases in the earnings base are automatic, based on the increase in average wages in the economy (excluding self-employment earnings) each year. Table 1 summarizes the current payroll tax schedule:

TABLE 1.—CURRENT LAW SOCIAL SECURITY PAYROLL TAX RATES FOR EMPLOYERS AND EMPLOYEES EACH AND TAXABLE EARNINGS BASES, BY INDIVIDUAL AND COMBINED TRUST FUNDS, 1977 AND AFTER

Calendar year	Employee and employer rates, each (percent)					Taxable earnings base
	OASI	DI	OASDI combined	HI	OASDHI combined	
1977	4.375	0.575	4.950	0.900	5.850	$16,500
1978	4.275	.775	5.050	1.100	6.050	17,700
1979	4.330	.750	5.080	1.050	6.130	22,900
1980	4.520	.560	5.080	1.050	6.130	25,900
1981	4.700	.650	5.350	1.300	6.650	29,700
1982	4.575	.825	5.400	1.300	6.700	32,400
1983	4.775	.625	5.400	1.300	6.700	35,700
1984	5.200	.500	5.700	1.300	[1] 7.000	37,800
1985	5.200	.500	5.700	1.350	7.050	39,600
1986	5.200	.500	5.700	1.450	7.150	42,000
1987	5.200	.500	5.700	1.450	7.150	([2])
1988–89	5.530	.530	6.060	1.450	7.510	([2])
1990–99	5.600	.600	6.200	1.450	7.650	([2])
2000 and after	5.490	.710	6.200	1.450	7.650	([2])

[1] A tax credit of 0.3 percent of taxable wages was allowed against the tax paid by employees, so that the effective employee withholding rate for 1984 will be 6.7 percent.

[2] Subject to automatic increase.

Source: Social Security Bulletin, Annual Statistical Supplement, 1984–85, Table D.

TABLE 2.—CURRENT LAW SOCIAL SECURITY PAYROLL TAX RATES FOR SELF-EMPLOYED INDIVIDUALS, BY INDIVIDUAL AND COMBINED TRUST FUNDS, 1980 AND AFTER

Calendar year	OASI	DI	OASDI combined	HI	OASDHI combined
1980	6.2725	0.7775	7.05	1.05	8.10
1981	7.0250	0.9750	8.00	1.30	9.30
1982	6.8125	1.2375	8.05	1.30	9.35
1983	7.1125	0.9375	8.05	1.30	9.35
1984	10.4000	1.0000	11.40	2.60	[1] 14.00
1985	10.4000	1.0000	11.40	2.70	[1] 14.10
1986–87	10.4000	1.0000	11.40	2.90	[1] 14.30
1988–89	11.0600	1.0600	12.12	2.90	[1] 15.02
1990–99	11.2000	1.2000	12.40	2.90	15.30
2000 and after	10.9800	1.4200	12.40	2.90	15.30

[1] Includes tax credits.

Source: Social Security Bulletin, Annual Statistical Supplement, 1984–85, Table D.

In 1940, approximately 24 million persons worked in employment covered by the social security system. Over the years, major categories of workers were brought under the system, such as State and local government employees (on a voluntary basis), regularly employed farm and domestic workers, members of the armed services, and self-employed professionals such as physicians and lawyers. In 1982, over 116 million workers and 95 percent of all jobs in the United States were covered under social security. The present law social security earnings base, as revised by the 1977 Amendments and updated automatically according to wage increases in the economy, provides that about 90 percent of all covered earnings are taxable.

While coverage is compulsory for most types of employment, approximately 8 million jobs were exempt from coverage under social security. The majority of these noncovered positions were and still are in the Federal Government, whose employees have not generally been allowed to participate in social security and in State and local governments. Beginning January 1, 1983, Federal employees were covered under the medicare portion of the social security tax, and as of January 1, 1984, all new Federal employees are covered under the OASDI portion as well. About 70 percent of State and local government jobs (10 million out of 14.8 million jobs), and about 80 percent of nonprofit organization jobs were covered by social security as of 1981. Beginning January 1, 1984, all employees of nonprofit organizations are covered, and no terminations of social security coverage by State government entities are allowed. (See Appendix I for a discussion of the Social Security Amendments of 1983 which included these changes (see table 3).) Table 4 shows State-by-State data on State and local government jobs covered as of March 1980.

TABLE 3.—SOCIAL SECURITY COVERAGE, 1982

[In millions]

Occupational group	Number of employees	Covered[1] Number	Covered[1] Percent
Specifically exempt from OASI coverage:			
Federal Civilian employees	3.6	0.7	[2] 20.0
Voluntary coverage:			
State and local government	15.0	9.9	65.0
Nonprofit organization	6.9	5.3	75.0
Mandatorily covered:			
Industry and commerce	78.2	78.0	99.7
Farm [3]	2.3	1.6	70.0
Domestic [3]	2.0	.5	25.0
Self-employed [3]	9.1	7.0	75.0

[1] Data on covered employment are estimated based upon class of worker of major job determined by highest amount of taxable wages, employed over the year 1982.

[2] Federal employees who are temporary or who work for quasi-Federal agencies such as TVA are covered. The 1983 Social Security Amendments covered Federal employees hired after 1983, as well as all nonprofit employees, current and future.

[3] Mandatorily covered if special minimum coverage requirements met. Special minimum requirements for coverage generally relate to amount of wages earned—for example, domestic employees must receive at least $50 from one employer during a calendar quarter for those wages to be covered.

Source: Office of Research, Statistics, and International Policy, Social Security Administration.

TABLE 4.—ESTIMATES OF SOCIAL SECURITY COVERAGE OF STATE AND LOCAL GOVERNMENT JOBS, MARCH 1980

[Number in thousands]

State[1]	Number of jobs	Number of jobs covered	Percent covered
Total	13,364	9,327	70
1. California	1,421	573	40
2. New York	1,097	1,025	93
3. Texas	812	435	54
4. Illinois	638	243	38
5. Ohio	602	0	0
6. Pennsylvania	572	552	97
7. Michigan	559	511	91
8. Florida	528	449	85
9. New Jersey	435	435	100
10. North Carolina	359	329	92
11. Georgia	356	272	76
12. Massachusetts	339	0	0
13. Virginia	316	316	100
14. Wisconsin	311	257	82
15. Indiana	306	267	87
16. Minnesota	275	188	68

TABLE 4.—ESTIMATES OF SOCIAL SECURITY COVERAGE OF STATE AND LOCAL GOVERNMENT JOBS, MARCH 1980—Continued

[Number in thousands]

State [1]	Number of jobs	Number of jobs covered	Percent covered
17. Missouri	270	204	76
18. Maryland	262	241	92
19. Tennessee	257	221	86
20. Washington	252	248	98
21. Louisiana	249	39	16
22. Alabama	226	226	100
23. Oklahoma	188	159	85
24. Colorado	187	44	24
25. Kentucky	187	126	68
26. Iowa	185	178	96
27. South Carolina	184	176	96
28. Oregon	175	158	90
29. Connecticut	165	93	57
30. Arizona	164	140	85
31. Kansas	164	147	90
32. Mississippi	150	150	100
33. Arkansas	125	119	95
34. Nebraska	115	107	93
35. West Virginia	113	105	93
36. New Mexico	89	69	78
37. Utah	89	79	89
38. Maine	70	24	34
39. Idaho	59	57	97
40. Hawaii	58	42	72
41. Montana	57	49	85
42. New Hampshire	54	49	90
43. Rhode Island	52	39	74
44. North Dakota	52	39	74
45. South Dakota	48	42	87
46. Nevada	47	3	6
47. Wyoming	42	34	83
48. Alaska	36	17	46
49. Delaware	35	23	66
50. Vermont	30	28	92

[1] States are ranked by number of jobs.

Source: Research and Statistics Note No. 5, Dec. 7, 1983, Office of Research, Statistics and International Policy.

HISTORY OF FINANCING STRUCTURE

Current cost funding

The social security system has been financed from its inception on a "pay-as-you-go" basis; i.e., current income to the system pays for current benefits. If the system were to be "advance funded" (i.e., reserves adequate to pay all benefits to which current workers and beneficiaries are entitled), an enormous amount of capital would have to be held by the trust funds in the form of public or private debt obligations. It has been thought preferable to avoid having the Federal Government hold such large amounts of public or private capital; therefore, financing has been provided through congressionally approved payroll tax increases from time to time based on projections of the current revenues needed to meet current benefit costs. While such projections covered periods of 50 to 75 years into the future, they typically did not envision tax increases going into effect until they were actually needed to meet the immediate benefit expenditures of the time. Table 5 provides a summary of major past increases in tax rates in the program.

TABLE 5.—SELECTED TAX TABLE AND WAGE BASE INCREASES, 1937–86

	Wage base	Contribution rate (percent) employer/employee each			
		Total	OASI	DI	HI
1937	$3,000	1.0	1.0		
1950	3,000	1.5	1.5		
1955	4,200	2.0	2.0		
1959	4,800	2.5	2.25	0.25	
1966	6,600	4.2	3.5	.35	0.35
1970	7,800	4.8	3.65	.55	.60
1974	13,200	5.85	4.375	.575	.90
1978	17,700	6.05	4.275	.775	1.00
1979	22,900	6.13	4.33	.75	1.05
1981	29,700	6.65	4.70	.65	1.30
1982	32,400	6.70	4.575	.825	1.30
1984	37,800	[1] 7.00	5.200	.500	1.30
1985	39,600	7.05	5.200	.500	1.35
1986	42,000	7.15	5.200	.500	1.45

[1] Employees receive tax credit of 0.3 percent.

Source: Social Security Bulletin, Annual Statistical Supplement, 1984–85, Table D.

Impact of indexing benefit structure

In 1972, Congress approved both a major one-time OASDI benefit increase of 20 percent and a new system for increasing OASDI benefits automatically each year according to increases in the cost of living, beginning in 1975. Before this method of automatic indexing was enacted, benefit increases were approved on an ad hoc basis, and financing was reexamined each time to assure revenues were adequate to meet benefit payments. In fact, financing was based on conservative estimates of the general performance of the economy—a "level-earnings" methodology, which assumed that the only future increase in revenues to the trust fund would come from growth in total covered wages resulting from having more workers in the economy as the population increased.

This methodology repeatedly produced unplanned surpluses under existing tax rates, as the economy expanded and the level of wages increased at the same time as the total number of workers increased. The financing of the expansion of benefits and benefit levels throughout the 1960's was largely based on these projections of surpluses in the funds.

With the advent of indexation of OASDI benefits, it became necessary to base projections of trust fund experience on dynamic economic assumptions; i.e., assuming increases in inflation and wage levels in order to reflect more accurately the future rise in benefit levels and the wage base that would occur automatically. Retaining the old system of static economic assumptions could have resulted in underestimating program costs and revenues. However, use of dynamic assumptions in conjunction with a fully indexed benefit structure means that projections of program experience are much more difficult to make accurately, because the benefit levels and trust fund income as well as every set of economic assumptions are highly sensitive to changing economic conditions, particularly near-term fluctuations.

Compounding this difficulty in predicting economic patterns was an unintended effect of the way automatic benefit increases were applied to existing and new benefits, which caused benefits to increase much more rapidly, in comparison to pre-retirement earnings, than had been anticipated. Thus, at the same time as the economy was performing more poorly than had been predicted, it was realized that benefits would rise with the automatic provisions more rapidly than anticipated. Beginning with its report of 1973, the Social Security Board of Trustees repeatedly forecast an adverse financial situation for the program both in the near term (late 1970's and early 1980's) and the long run, i.e., until the middle of the next century. The short-term forecast of the 1977 Trustees' Report showed DI fund reserves falling to zero in late 1978, and OASI reserves being used up by 1983; the same report showed a long-term deficit for OASDI (over the 75-year period) of 8.2 percent of taxable payroll, which represented an average shortfall in revenues of more than 40 percent of the costs of the program.

Effect of the 1977 amendments

As a result of these projections the Congress enacted the 1977 amendments, which improved forecasts of the financial condition of the program significantly. At the time of enactment, the Social Security actuaries projected that the OASDI program would be in a surplus position through the next 25-year period. The improved short-run outlook was brought about by legislated changes on the revenue side, estimated at that time to add some $80 billion in new revenues to the OASDI programs in the 1978–83 period, as well as changes in benefits resulting in net reductions of outgo of $7.5 billion during that same period.

The revenue increases were the result of: (1) ad hoc increases in the taxable earnings base above the increases that would have occurred automatically; (2) a reallocation to OASDI of a portion of the already scheduled increases in the HI tax rate; (3) increases in the overall OASDI tax rate beginning in 1979; and (4) increases in the self-employment tax rate bringing it up to 1½ times the em-

BEST COPY AVAILABLE

ployee rate. The principal benefit changes affecting outgo included (among other provisions): (1) revamping of the OASDI benefit formula to eliminate overcompensation for inflation in the future—referred to as the "decoupling" provisions; (2) correction of a major technical flaw in computing benefit increases for early retirees; and (3) elimination of retroactive benefits in cases where reduced benefits would result. According to the estimates at the time the 1977 amendments were adopted, the amendments improved the long-range financial condition by reducing the projected deficit to 1.46 percent of taxable payroll, only a fraction of the 8.2 percent deficit projected before the amendments.

While the 1977 amendments included major future tax increases and a 25-percent reduction in future benefits, the full effect of these changes was delayed until 1981 and later. (For example, from 1978 through 1980, less than $17 billion in new revenues were realized as a result of the 1977 amendments, mainly from the ad hoc increases in the wage base, since the major tax increases were scheduled for 1981 and later.) At the time the amendments were enacted, it was known that the safety margin provided in the early years would not be very great, but the system at that point had reserves of $40 billion, which were thought to be sufficient to insure benefit payments until the additional revenues from the major tax increases could be realized.

However, economic conditions since 1977 proved to be substantially worse than previously predicted, as indicated in table 6; each percentage point in the CPI increase costs the trust funds about $1.5 billion, so that the 1980 increase alone cost about $13 billion more than predicted. As a result, benefit increases raised trust fund outlays beyond expectations at precisely the time real wages were declining and unemployment was increasing, so that revenues did not keep pace with outlays. During this period, therefore, trust fund reserves as a percentage of yearly benefit outlays declined.

TABLE 6.—COMPARISON OF ESTIMATED AND ACTUAL KEY ECONOMIC INDICATORS, 1977 FORECAST [1]

[Key economic indicators (in percent)]

Calendar year	CPI increase		Real wage differential		Unemployment rate	
	Estimated	Actual	Estimated	Actual	Estimated	Actual
1977	6.0	6.5	2.4	0.4	7.1	7.0
1978	5.4	7.6	2.7	0.5	6.3	6.0
1979	5.3	11.5	2.5	−2.7	5.7	5.8
1980	4.7	13.5	2.4	−4.9	5.2	7.1
1981	4.1	10.3	2.3	−1.6	5.0	7.6

[1] The 1977 forecast was based on the intermediate set of assumptions in the 1977 trustees' report.
Source: Ways and Means Committee Print, 96–75.

Impact of the 1980, 1981, and 1982 amendments

Tables 7 and 8 show the effects of legislation from 1980 to 1982 on the financial status of the social security programs.

TABLE 7.—ORIGINAL SHORT-RANGE ESTIMATES OF REDUCTION IN OASDI AND HI BENEFIT PAYMENTS DUE TO AMENDMENTS OF 1980, THE OMNIBUS RECONCILIATION ACT OF 1981, AND THE TAX EQUITY AND FISCAL RESPONSIBILITY ACT OF 1982

[In billions]

Calendar years	Estimates of net reduction in benefit payments, made at time of enactment, resulting from each set of amendments [1]			
	1980 amendments [2]	1981 reconciliation	1981 minimum benefit restoration bill	1982 Tax Act
1981	$0.2	$0.1		
1982	.7	3.5	−$0.9	
1983	1.1	4.7	−1.3	$0.8
1984	1.4	5.8	−1.3	1.9
1985	1.8	6.4	−1.3	3.7
1986	2.2	6.9	−1.3	4.7

[1] Figures do not add across because the assumptions underpinning each set of amendments were different from one another. In addition, these estimates were made at the time of enactment and have not been individually re-evaluated since that time. Negative figures represent increases in benefit payments.

[2] Figures represent the sums of the estimates made for Public Law 96-265 (the Social Security Disability Amendments of 1980), Public Law 96-473, and Public Law 96-499 (the Omnibus Reconciliation Act of 1980).

TABLE 8.—ADDITIONAL TAX INCOME IN 1982 TO 1990 TO THE OASDHI PROGRAMS DUE TO PUBLIC LAW 97-123, AND TAX EQUITY AND FISCAL RESPONSIBILITY ACT OF 1982

[In billions]

Calendar year	Additional tax income	
	Public Law 97-123	Tax Act of 1982
1982	$0.6	
1983	.7	$1.6
1984	.7	1.9
1985	.8	2.2
1986	.9	2.6
1987	1.0	2.8
1988	1.0	3.0
1989	1.1	3.3
1990	1.3	3.7
1980–1990	8.1	21.2

Note: Based on the 1982 Trustees' Report Intermediate (II-B) economic assumptions.

IMPACT OF THE SOCIAL SECURITY AMENDMENTS OF 1983

Tables 9 and 10 show the additional income and outlay reductions to the combined OASDI and HI trust funds respectively under alternative II-B assumption. From 1983 to 1989, the actuaries estimate that the OASDI fund has additional financing of $166.2 billion as a result of the Social Security Amendments of 1983. The HI fund has additional financing of $33.6 billion.

TABLE 9.—ESTIMATED AMOUNTS OF CHANGES IN OASDI TAX INCOME, GENERAL FUND TRANSFERS, AND BENEFIT PAYMENTS THAT WILL RESULT FROM THE PROVISIONS IN PUBLIC LAW 98-21, BASED ON 1983 ALTERNATIVE II-B ASSUMPTIONS, CALENDAR YEARS 1983-89

[In billions of dollars]

Provision	Calendar year—							Total, 1983-89
	1983	1984	1985	1986	1987	1988	1989	
Increase tax rate on covered wages and salaries		8.6	0.3			14.5	16.0	39.4
Increase tax rate on covered self-employment earnings		1.1	3.1	3.0	3.2	3.7	4.4	18.5
Cover all Federal elected officials and political appointees		(1)	(1)	(1)	(1)	(1)	(1)	.1
Cover new Federal employees		.2	.7	1.2	1.8	2.4	3.1	9.3
Cover all nonprofit employees		1.3	1.5	1.8	2.1	2.6	3.0	12.4
Total for new coverage		1.5	2.2	3.0	3.9	5.0	6.1	21.8
Prohibit State and local government terminations		.1	.2	.4	.6	.8	1.1	3.2
Accelerate collection of State and local taxes		.6	(1)	(1)	.1	.1	.1	1.0
Modify general fund financing basis for non-contributory military service credits	18.4	−.4	−.4	−.3	−.4	−.4	−.4	16.1
Provide reimbursements from general fund for unnegotiated checks	1.3	.1	.1	.1	.1	.1	.1	1.6
Delay benefit increases 6 months	3.2	5.2	5.4	5.5	6.2	6.7	7.3	39.4
Continue benefits on remarriage		(2)	(2)	(2)	(2)	(2)	(2)	−.1
Modify indexing of deferred survivors' benefits			(2)	(2)	(2)	(2)	(2)	(2)
Raise disabled widow(er)'s benefits to 71.5 percent of PIA		−.2	−.2	−.2	−.2	−.3	−.3	−1.4
Pay divorced spouses whether or not worker has retired			(2)	(2)	(2)	(2)	(2)	−.1
Replace 90-percent factor in benefit formula with variable percentage, for individuals receiving pensions from noncovered employment				(3)	(3)	(3)	.1	.1
Offset spouses benefits by up to two-thirds of noncovered Government pension	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)
Expand use of death certificates to stop benefits	(3)	(3)	(3)	(3)	(3)	(3)	(3)	.1

TABLE 9.—ESTIMATED AMOUNTS OF CHANGES IN OASDI TAX INCOME, GENERAL FUND TRANSFERS, AND BENEFIT PAYMENTS THAT WILL RESULT FROM THE PROVISIONS IN PUBLIC LAW 98–21, BASED ON 1983 ALTERNATIVE II-B ASSUMPTIONS, CALENDAR YEARS 1983–89—Continued

[In billions of dollars]

Provision	Calendar year—							Total, 1983–89
	1983	1984	1985	1986	1987	1988	1989	
Impose 5-year residency requirement for certain aliens			(³)	(³)	(³)	(³)	(³)	.1
Tax one-half of benefits for high income beneficiaries		2.6	3.2	3.9	4.7	5.6	6.7	26.6
All other miscellaneous and technical changes	(²)	(²)	(²)	(²)	(²)	(²)	(²)	–.1
Total for all changes	22.8	19.2	13.9	15.3	18.0	35.8	41.2	166.2

[1] New additional taxes of less than $50 million.

[2] Additional benefits of less than $50 million.

[3] Reduction in benefits of less than $50 million.

Note: Estimates shown for each provision include the effects of interaction with all preceding provisions. Totals do not always equal the sum of components due to rounding. Positive figures represent additional income or reductions in benefits. Negative figures represent reductions in income or increases in benefits.

Source: Office of the Actuary, Social Security Administration.

As is apparent from table 9, the major sources of short-term revenue in the 1983 Amendments are delay of the 1983 COLA by 6 months, acceleration of part of the 1990 tax increase already scheduled under the 1977 Amendments, taxation of benefits, and expansion of coverage to Federal and non-profit organization employees. It should be noted that most of the increased revenue from acceleration of FICA taxes will be realized in 1988 and 1989, and that the tax rate increase for 1984 was simply an acceleration of an increase already scheduled for 1985. In contrast, the self-employment tax rate increase generates substantial new revenue during each year of the forecasting period. The overall impact of the 1983 Amendments in improving the system's cash-flow and reserve balances can be seen below in Tables 11–15.

TABLE 10.—ESTIMATED AMOUNTS OF CHANGES IN HI TAX INCOME, GENERAL FUND TRANSFERS, AND BENEFIT PAYMENTS THAT WILL RESULT FROM THE PROVISIONS IN PUBLIC LAW 98-21, BASED ON 1983 ALTERNATIVE II-B ASSUMPTIONS, CALENDAR YEARS 1983-89

[In billions of dollars]

Provision	Calendar year—							Total, 1983-89
	1983	1984	1985	1986	1987	1988	1989	
Provide for prospective hospital reimbursement [1]			0.2	2.0	3.6	5.2	7.0	18.0
Delay single reimbursement rate for nursing facilities	(2)	(2)						(2)
Reduce allowable return on equity	(3)	.1	.1	.1	.1	.1	.2	.7
Increase tax rate on covered self-employment earnings		.4	1.3	1.5	1.6	1.7	1.8	8.3
Cover all Federal elected officials and political appointees	(4)	(4)	(4)	(4)	(4)	(4)	(4)	(4)
Cover all nonprofit employees		.3	.4	.5	.5	.6	.7	3.0
Prohibit State and local government terminations		(4)	.1	.1	.1	.2	.3	.8
Accelerate collection of State and local taxes		.2	(4)	(4)	(4)	(4)	(4)	.2
Modify general fund financing basis for noncontributory military service credits	3.3	−.1	−.1	−.1	−.1	−.1	−.1	2.5
Total for HI changes	3.3	.8	1.9	4.1	5.9	7.8	9.8	33.6

---

[1] Savings attributable to prospective payments were computed as the additional savings which would be generated in fiscal year 1986 and later by eliminating the October 1985 sunset provision on the hospital rate-of-increase limits of sec. 101(b) of the Tax Equity and Fiscal Responsibility Act of 1982. The prospective payment legislation as passed by Congress does not mandate a system which would necessarily generate this level of savings. Instead, the level of prospective payment rates is left to the discretion of the Secretary of HHS.

[2] Additional benefit of less than $50,000,000.

[3] Reduction in provider reimbursement of less than $50,000,000.

[4] Net additional tax income of less than $50,000,000.

Note: Estimates shown for each provision include the effects of interaction with all preceding provisions. Totals do not always equal the sum of components due to rounding. Positive figures represent additional income or reductions in benefits. Negative figures represent reductions in income or increases in benefits.

Source: Office of the Actuary, Health Care Financing Administration.

CURRENT SHORT-RANGE STATUS OF THE TRUST FUNDS

An assessment of the status of the trust funds depends heavily on the economic assumptions underlying the estimates, because the level of revenue and benefit payments in the OASDHI system are so directly dependent on economic factors such as general inflation, increases in health care costs, and wage growth. Traditionally, the social security trustees have used three paths to estimate the short-range status of the trust funds: an optimistic, a pessimistic, and an intermediate path. Beginning with the 1982 trustees' report, an additional path was presented: an "intermediate II–A" which modifies the usual intermediate path to reflect the somewhat more optimistic economic outlook forecasted by the administration.

Table 11 summarizes the key economic assumptions contained in President Reagan's fiscal year 1987 budget and compares them with the assumptions underlying CBO's baseline February 1986 forecast, and CBO's "high growth" and "low growth" forecasts. Tables 12 through 15 summarize the estimated operations of the OASDHI trust funds for the years 1985 through 1991 under these sets of assumptions.

TABLE 11.—COMPARISON OF THE ECONOMIC ASSUMPTIONS UNDERLYING TRUST FUND PROJECTIONS BASED ON PRESIDENT REAGAN'S 1987 BUDGET AND CBO'S BASELINE FEBRUARY 1986 ESTIMATES, BY CALENDAR YEAR

	1985	1986	1987	1988	1989	1990	1991
Percent change in real GNP:							
President's budget	2.6	3.9	4.0	4.0	3.9	3.6	3.5
CBO baseline	3.5	3.2	3.1	3.3	3.5	3.5	3.2
CBO low growth	2.7	3.0	−.7	−.8	5.4	3.4	3.2
CBO high growth	4.0	4.0	4.3	4.4	4.6	4.6	4.6
Civilian unemployment rate:							
President's budget	7.2	6.8	6.6	6.4	6.2	5.9	5.7
CBO baseline	7.1	6.7	6.7	6.5	6.3	6.1	6.0
CBO low growth	7.4	6.9	8.4	9.9	8.9	8.3	8.7
CBO high growth	6.9	6.6	6.3	5.8	5.5	5.1	4.6
Percent change in CPI–W:							
President's budget	3.5	3.6	4.2	3.7	3.3	2.8	2.1
CBO baseline	3.7	3.4	4.2	4.4	4.4	4.3	4.3
CBO low growth	3.7	3.6	4.4	3.9	3.0	2.5	2.5
CBO high growth	3.7	3.4	4.3	5.2	6.3	7.5	9.1

Source: Fiscal Year 1987 Budget, and Congressional Budget Office.

TABLE 12.—ESTIMATED OPERATION OF THE OASI, DI, HI AND OASDHI TRUST FUNDS BASED UPON PRESIDENT'S 1987 BUDGET ASSUMPTIONS

[In billions of dollars]

	Fiscal year—						
	1985	1986	1987	1988	1989	1990	1991
Old age and survivors insurance:							
Outlays	169.2	179.6	191.2	204.3	217.3	231.2	239.3
Income	179.9	193.2	207.7	236.7	258.8	281.1	300.8
Year-end balance	33.9	34.3	50.8	83.3	124.8	174.7	236.2
Start-of-year balance (as percent of outlays)	23	25	25	32	46	61	81
Disability insurance:							
Outlays	19.3	20.4	21.1	22.0	23.1	24.2	25.0
Income	18.0	19.8	20.2	22.7	24.6	28.8	31.7
Year-end balance	5.9	7.8	6.9	7.5	9.1	13.6	20.4
Start-of-year balance (as percent of outlays) [1]	29	34	43	37	39	44	63
Combined OASI and DI:							
Outlays	188.5	200.0	212.2	226.3	240.4	255.4	264.3
Income	197.9	213.0	227.8	259.4	283.4	309.9	332.5
Year-end balance	39.7	42.1	57.7	90.8	133.8	188.3	256.5
Start-of-year balance (as percent of outlays) [1]	23	26	27	32	45	60	79
Hospital insurance:							
Outlays [2]	48.7	49.2	51.7	55.9	61.1	66.6	72.3
Income [2]	50.9	55.9	62.6	68.2	72.9	77.9	82.3
Year-end balance [2]	21.3	38.6	49.5	61.8	73.6	84.9	94.9
Start-of-year balance (as percent of outlays) [2]	35	43	75	89	101	111	117
Combined OASI, DI, and HI:							
Outlays	237.2	249.3	263.9	282.2	301.5	322.0	336.6
Income	248.8	268.9	290.4	327.7	356.4	387.8	414.8
Year-end balance	61.0	80.7	107.2	152.6	207.5	273.2	351.5
Start-of-year balance (as percent of outlays) [1]	26	30	36	43	56	70	87

---

[1] Assets at beginning of year are defined for the OASI and DI trust funds as assets at end of prior year plus the respective OASI and DI advance tax transfers for October.

[2] Does not include repayment of loans from OASI to HI.

Source: Office of the Actuary, Social Security Administration and Office of the Actuary, Health Care Financing Administration.

TABLE 13.—ESTIMATED OPERATIONS OF THE OASI, DI, OASDI, HI, AND OASDHI TRUST FUNDS BASED UPON CBO BASELINE BUDGET ASSUMPTIONS

[In billions of dollars; fiscal years]

	1985	1986	1987	1988	1989	1990	1991
Old age and survivors insurance:							
Outlays	171.6	180.3	191.2	204.8	219.1	234.4	250.7
Income[1]	177.9	181.4	207.2	234.9	257.2	281.9	306.8
Year-end balance	33.9	35.0	51.0	81.1	119.2	166.7	222.9
Start-of-year balance, as percent of outlays[2]	23	26	25	32	44	58	74
Disability insurance:							
Outlays	19.4	20.3	21.1	22.2	23.4	24.7	26.1
Income[1]	20.6	22.4	20.1	22.5	24.4	28.9	32.3
Year-end balance	5.9	8.0	7.0	7.4	8.5	12.6	18.9
Start-of-year balance, as percent of outlays[2]	29	35	44	38	38	41	56
Combined OASI and DI:							
Outlays	191.0	200.6	212.3	227.0	242.5	259.0	276.7
Income[1]	198.5	203.8	227.5	257.5	281.6	310.7	339.1
Year-end balance	39.7	43.0	58.0	88.5	127.7	179.4	241.7
Start-of-year balance, as percent of outlays[2]	23	27	27	32	44	57	72
Hospital insurance:							
Outlays	48.7	49.0	53.2	58.9	65.3	72.5	80.5
Income[1]	52.8	67.3	62.3	67.6	72.3	77.7	83.2
Year-end balance	21.3	39.6	48.7	57.4	64.4	69.6	72.3
Start-of-year balance, as percent of outlays	35	43	74	83	88	89	86
Combined OASI, DI, and HI:							
Outlays	239.7	249.6	265.5	285.9	307.7	331.5	357.2
Income[1]	251.3	271.2	289.6	325.1	353.9	388.4	422.4
Year-end balance	61.0	82.6	106.7	145.9	192.1	248.9	314.1
Start-of-year balance, as percent of outlays[2]	26	30	37	43	53	64	76

---

[1] Income reflects repayment of interfund borrowing loans.

[2] Start-of-year balances for OASI and DI are computed as the balances at the end of the previous year plus normalized tax transfers at the beginning of the year. Trust fund balances include any borrowed amounts from the other trust funds.

Note: Columns may not add due to rounding. Trust fund income and outlays are based upon the treatment contained in the Monthly Treasury Statement of Receipts and Outlays of the United States Government. Interest payments on interfund borrowing and on normalized tax transfers are considered as outgo and reimbursements for unnegotiated benefit payments are treated as income. In the projections of the Office of the Actuary of the Social Security Administration, these interest payments are considered as negative income and the reimbursement for uncashed checks is an adjustment to outgo.

Source: Congressional Budget Office. Based on CBO's February 1986 baseline economic assumptions.

TABLE 14.—ESTIMATED OPERATIONS OF THE OASI, DI, OASDI, HI, AND OASDHI TRUST FUNDS BASED UPON CBO LOW GROWTH BUDGET ASSUMPTIONS

[In billions of dollars; fiscal years]

	1985	1986	1987	1988	1989	1990	1991
Old age and survivors insurance:							
Outlays	171.6	180.3	191.4	205.7	220.1	227.9	236.1
Income [1]	177.9	181.0	203.9	221.5	237.9	255.5	270.8
Year-end balance	33.9	34.6	47.1	62.9	80.7	108.3	143.1
Start-of-year balance, as percent of outlays [2]	23	26	25	30	35	42	53
Disability insurance:							
Outlays	19.4	20.3	21.1	22.3	23.4	23.9	24.4
Income [1]	20.6	22.4	19.8	21.2	22.6	26.1	28.5
Year-end balance	5.9	7.9	6.6	5.6	4.7	7.0	11.0
Start-of-year balance, as percent of outlays [2]	30	35	44	36	30	26	36
Combined OASI and DI:							
Outlays	191.0	200.6	212.5	227.9	243.5	251.8	260.5
Income [1]	198.5	203.4	223.7	242.7	260.5	281.6	299.3
Year-end balance	39.7	42.5	53.7	68.5	85.5	115.3	154.1
Start-of-year balance, as percent of outlays [2]	23	27	27	30	35	41	51
Hospital insurance:							
Combined OASI, DI, and HI:							
Outlays	48.7	49.0	53.2	58.4	63.8	69.8	76.1
Income [1]	52.8	66.9	60.9	63.6	66.8	70.6	73.7
Year-end balance	21.3	39.2	46.8	52.0	55.0	55.8	53.4
Start-of-year balance, as percent of outlays	35	43	74	80	81	79	73
Outlays	239.7	249.6	265.8	286.4	307.3	321.6	336.6
Income [1]	251.3	270.3	284.6	306.3	327.4	352.2	373.0
Year-end balance	61.0	81.7	100.5	120.4	140.5	171.1	207.5
Start-of-year balance, as percent of outlays [2]	26	30	36	40	44	49	56

---

[1] Income reflects repayment of interfund borrowing loans.

[2] Start-of-year balances for OASI and DI are computed as the balances at the end of the previous year plus normalized tax transfers at the beginning of the year. Trust fund balances include any borrowed amounts from the other trust funds.

Note: Columns may not add due to rounding. Trust fund income and outlays are based upon the treatment contained in the Monthly Treasury Statement of Receipts and Outlays of the United States Government. Interest payments on interfund borrowing and on normalized tax transfers are considered as outgo and reimbursements for unnegotiated benefit payments are treated as income. In the projections of the Office of the Actuary of the Social Security Administration, these interest payments are considered as negative income and the reimbursement for uncashed checks is an adjustment to outgo.

Source: Congressional Budget Office. Based on CBO's February 1986 low growth economic assumptions.

TABLE 15.—ESTIMATED OPERATIONS OF THE OASI, DI, OASDI, HI, AND OASDHI TRUST FUNDS BASED UPON CBO HIGH GROWTH BUDGET ASSUMPTIONS

[In billions of dollars; fiscal years]

	1985	1986	1987	1988	1989	1990	1991
Old age and survivors insurance:							
Outlays	171.6	180.3	191.1	205.0	220.9	241.9	264.9
Income [1]	177.9	182.0	209.8	241.1	271.3	309.2	355.0
Year-end balance	33.9	35.6	54.2	90.3	140.7	208.0	298.2
Start-of-year balance (as percent of outlays) [2]	23	26	26	33	48	66	87
Disability insurance:							
Outlays	19.4	20.3	21.1	22.2	23.6	25.5	27.6
Income [1]	20.6	22.5	20.4	23.1	25.7	31.6	37.2
Year-end balance	5.9	8.0	7.4	8.3	10.4	16.5	26.1
Start-of-year balance (as percent of outlays) [2]	30	35	44	39	42	48	68
Combined OASI and DI:							
Outlays	191.0	200.6	212.2	227.3	244.5	267.4	292.5
Income [1]	198.5	204.4	230.2	264.3	297.0	340.8	392.2
Year-end balance	39.7	43.6	61.6	98.6	151.2	224.5	324.2
Start-of-year balance (as percent of outlays) [2]	23	27	27	34	48	64	85
Hospital insurance:							
Outlays	48.7	49.0	53.2	59.2	66.8	75.9	87.1
Income [1]	52.8	67.5	62.9	69.0	75.4	83.4	93.1
Year-end balance	21.3	39.7	49.4	59.3	67.9	75.5	81.5
Start-of-year balance (as percent of outlays)	35.3	43.4	74.6	83.5	88.8	89.6	86.7
Combined OASI, DI, and HI:							
Outlays	239.7	249.6	265.5	286.4	311.2	343.3	379.6
Income [1]	251.3	271.9	293.1	333.3	372.5	424.2	485.8
Year-end balance	61.0	83.3	111.0	157.9	219.1	300.1	405.8
Start-of-year balance (as percent of outlays) [2]	25.8	29.8	36.9	44.2	56.5	69.6	86.9

[1] Income reflects repayment of interfund borrowing loans.

[2] Start-of-year balances for OASI and DI are computed as the balances at the end of the previous year plus normalized tax transfers at the beginning of the year. Trust fund balances include any borrowed amounts from the other trust funds.

Note: Columns may not add due to rounding. Trust fund income and outlays are based upon the treatment contained in the Monthly Treasury Statement of Receipts and Outlays of the United States Government. Interest payments on interfund borrowing and on normalized tax transfers are considered as outgo and reimbursements for unnegotiated benefit payments are treated as income. In the projections of the Office of the Actuary of the Social Security Administration, these interest payments are considered as negative income and the reimbursement for uncashed checks is an adjustment to outgo.

Source: Congressional Budget Office. Based on CBO's February 1986 high growth economic assumptions.

TABLE 16.—SUMMARY COMPARISON OF COMBINED OASDI AND OASDHI TRUST FUND BALANCES UNDER ALTERNATIVE ECONOMIC ASSUMPTIONS

[In billions of dollars]

End-of-year balances	Fiscal year—						
	1985	1986	1987	1988	1989	1990	1991
Combined OASDI:							
Administration	39.7	42.1	57.7	90.8	133.8	188.3	256.5
CBO baseline	39.7	43.0	58.0	88.5	127.7	179.4	241.7
CBO low growth	39.7	42.5	53.7	68.5	85.5	115.3	154.1
CBO high growth	39.7	43.6	61.6	98.6	151.2	224.5	324.2
Hospital insurance:							
Administration	21.3	38.6	49.5	61.8	73.6	84.9	94.9
CBO baseline	21.3	39.6	48.7	57.4	64.4	69.6	72.3
CBO low growth	21.3	39.2	46.8	52.0	55.0	55.8	53.4
CBO high growth	21.3	39.7	49.4	59.3	67.9	75.5	81.5
Combined OASDHI:							
Administration	61.0	80.7	107.2	152.6	207.5	273.2	351.5
CBO baseline	61.0	82.6	106.7	145.9	192.1	248.9	314.1
CBO low growth	61.0	81.7	100.5	120.4	140.5	171.1	207.5
CBO high growth	61.0	83.3	111.0	157.9	219.1	300.1	405.8

TABLE 17.—SUMMARY COMPARISON OF COMBINED OASDI AND OASDHI TRUST FUND BALANCES AS A PERCENT OF OUTLAYS UNDER ALTERNATIVE ECONOMIC ASSUMPTIONS

[In billions of dollars]

Start-of-year balance (as percent of outlays) [1]	Fiscal year—						
	1985	1986	1987	1988	1989	1990	1991
Combined OASDI:							
Administration	23	26	27	32	45	60	79
CBO baseline	23	27	27	32	44	57	72
CBO low growth	23	27	27	30	35	41	51
CBO high growth	23	27	27	34	48	64	85
Hospital insurance:							
Administration	35	43	75	89	101	111	117
CBO baseline	35	43	74	83	88	89	86
CBO low growth	35	43	74	80	81	79	73
CBO high growth	35	43	75	84	89	90	87
Combined OASDHI:							
Administration	26	30	36	43	56	70	87
CBO baseline	26	30	37	43	53	64	76
CBO low growth	26	30	36	40	44	49	56
CBO high growth	26	30	37	44	57	70	87

[1] The balance at the start of the year is higher than the balance at the end of the year by the amount of the normalized revenue transfers. Trust fund balances include any borrowed amounts from other trust funds.

Status of OASDI trust fund

Under the President's budget as well as under all three sets of CBO assumptions, the combined OASDI trust funds will continue the growth begun in 1984, at a relatively slow rate through 1987. Beginning in 1988, when the second accelerated increase in the tax rates occurs, the trust funds are expected to grow more rapidly. Yearly surpluses in the OASDI trust funds (i.e., excess of revenues over benefit outlays) will continue to increase, reaching well over $60 billion per year by 1991. Throughout the 1990's, and for some period into the next century, the favorable demographic pattern of a large baby-boom generation at peak earning years combined with the retirement of the relatively small generation born during the depression should insure large trust fund reserves.

For the combined OASDI funds, under the President's budget assumptions, the trust fund ratio is estimated to increase from 23 percent at the beginning of 1985 to 26 percent for 1986, and then increase each year thereafter, reaching 32 percent by 1988 and 79 percent by 1991. A similar pattern of increase is shown under the CBO baseline and low-growth assumptions, although slightly lower reserves are projected under those assumption sets. This increase includes, in the balance at the beginning of each fiscal year, the tax receipts for October which are to be transferred on the first day of the month under the provision for advance transfer of taxes to the trust funds.

The amounts transferred to the OASI trust fund from the HI and DI trust funds in 1982 under the interfund borrowing authority provided by Public Law 97-123, which was signed into law on December 29, 1981 are shown in table 18. The amounts that are assumed to be repaid in each future year, in accordance with provisions in Public Law 98-21, are also shown. It should be noted that the outstanding loan amounts are included in the OASI trust fund balances (and reflected in the OASI trust fund ratios), while the amounts of outstanding loans from the DI trust fund are excluded from the DI trust fund balance (with such exclusion reflected in the DI trust fund ratios). The HI fund was completely repaid in January 1986, and the DI fund will be completely repaid in June 1986.

Budgetary treatment of OASDI trust funds

The Balanced Budget and Emergency Deficit Control Act of 1985 contains two provisions dealing with the budgetary treatment of the OASDI trust fund operations. The Act amended the Social Security Act to provide that the operations of the OASDI trust funds, scheduled to be taken off-budget beginning in fiscal year 1993 under the 1983 Amendments, would be taken off-budget beginning with fiscal year 1986. The Act also required, however, that the operations of the OASDI trust funds be taken into account as part of the budget in determinations having to do with calculation of the maximum deficit amount under the Gramm-Rudman-Hollings mandatory deficit reduction procedure. The effect of these two provisions is to effectively continue to include the OASDI trust fund operations in the Federal budget for purposes of meeting the maximum deficit amount targets throughout the 5 years in which the Gramm-Rudman procedure is in effect.

The result is that the surpluses generated in the OASDI system are included in calculating the amount of revenue or spending reduction needed to meet the mandatory targets. These surpluses, according to the President's Budget and CBO will range from about $15 billion in fiscal year 1987 to around $60 billion in fiscal year 1991. Without inclusion of the trust funds in the budget for this purpose, therefore, at least $15 billion more would have to be found either through revenue increases or spending reductions to meet the $144 billion target mandated by law for fiscal year 1987.

TABLE 18.—INTERFUND BORROWING TRANSFERS ESTIMATED ON THE BASIS OF THE PRESIDENT'S FISCAL YEAR 1987 ASSUMPTIONS, FISCAL YEARS 1982–1986

[Dollar amounts in billions]

Fiscal year	Interfund borrowing transfers[1]		
	OASI	DI	HI
1982	$17.5	−$5.1	−$12.4
1983			
1984			
1985	−4.364	2.540	1.824
1986[2] [3]	−13.154	2.541	10.613

[1] Positive figures represent amounts borrowed by the trust fund or recoveries of prior loans to other trust funds; negative figures represent amounts loaned by the trust fund or repayments of prior loans from other trust funds.

[2] As of 1986 transfers, repayment of earlier loans is complete.

[3] Expected to occur in second quarter of 1986.

Status of the HI trust fund

The projections shown in Tables 12–15 for the hospital insurance component of medicare differ somewhat between the Congressional Budget Office and the President's budget. Both CBO and OMB assume a 2.0 percent increase in the DRG rate for FY 1987. For 1988–1991, the estimators assume that the DRG rates will grow at the same rate as the cost of a market basket of goods and services typically purchased by hospitals. In the OMB estimates, savings from the Administration proposals which the Administration contends can be instituted by regulation are incorporated into the estimates shown in Tables 12–15. These include the prospective payment formula for capital, the reform of direct medical educational payments, and other proposals. Estimates of the Administration's legislative proposals are not included. CBO does not incorporate either the legislative or regulatory initiatives in its estimates.

This basic conceptual difference is one of the main reasons why the HI trust fund balances are larger in the President's budget as compared to the CBO estimates. See section 4 for a more complete description of the assumptions underlying the HI estimates.

LONG RANGE STATUS OF THE TRUST FUNDS

OASDI trust funds

Because the social security program has been designed as a contributory system in which those who pay the taxes supporting it are considered to be earning the right to future benefits, Congress has traditionally required long-range estimates of the program's actuarial balance and has set future tax rates with a view to assuring that the income of the program will be sufficient to cover its outgo. Under current procedures, the long-range actuarial analysis of the cash benefits program covers a 75-year period—this would generally be long enough to cover the anticipated retirement years of those currently in the work force.

The long-range status of the social security trust funds is ordinarily expressed in terms of "percent of taxable payroll" rather than in dollar amounts. This permits a direct comparison between the tax rate actually in the law and the cost of the program. For example, if the program is projected to have a deficit of "1 percent of taxable payroll," this means that the social security tax rates now in the law would have to be increased by 0.5 percent points for employee and employer, each, in order to pay for the benefits due under present law. (Alternatively, the program could be brought back into balance by an equivalent reduction in benefit outgo or by a combination of revenue increases and outgo reductions.) If the program is projected to have a deficit of 1.5 percent of taxable payroll and expenditures are projected to be 10 percent of taxable payroll, then, under the given set of assumptions, 15 percent (1.5 divided by 10) of expenditures could not be met with that tax schedule. At the present time, the total taxable payroll amounts to approximately $1.8 trillion so that in 1986 terms, 1.5 percent of payroll represents about $28 billion.

In the short range, the financial soundness of each of the trust funds can be assessed by considering the size of the trust fund balance, in absolute terms and as a percentage of the annual expenditures, and whether the balance is growing or declining. In the long range, the traditional measure of financial soundness has been the actuarial balance of the system. The actuarial balance is defined as the difference between the total income rate and the cost rate. If the average income rate is between 95 percent and 105 percent of the average cost rate, over the 75-year long-range projection period, the system is said to be in close actuarial balance.

The long-range financial condition of the social security programs will be determined by three types of long-range factors: demographic factors such as rates of fertility, life expectancy, and labor force participation which determine how many workers there will be in the society in relation to non-working beneficiaries; economic factors such as unemployment, productivity, and inflation; and social security program factors, such as benefit levels, total number of covered workers, and percent of eligible workers drawing early retirement benefits.

It is clear that these factors cannot be predicted with any certainty as far into the future as 75 years, and the long-range projections should not be taken as absolute predictions of deficits or surpluses in the funds.

TABLE 19.—ESTIMATED LONG-RANGE OASDI COST EFFECT OF THE SOCIAL SECURITY AMENDMENTS OF 1983 (PUBLIC LAW 98–21)

Section	Provision	Effect, as percent of taxable payroll		
		OASI	DI	OASDI
	Old law:			
	Average cost rate	13.04	1.34	14.38
	Average tax rate	10.13	2.17	12.29
	Actuarial balance	−2.92	+.83	−2.09
	Changes included in Titles I and III: [1]			
101	Cover new Federal employees	+.26	+.02	+.28
102	Cover all non-profit employees	+.09	+.01	+.10
103	Prohibit State and local termination	+.06	+.00	+.06
111	Delay benefitter increases 6 months	+.28	+.03	+.30
113	Eliminate "windfall" benefits	+.04	+.00	+.04
114	Increase delayed retirement credits	−.10		−.10
121	Taxation of benefits	+.56	+.05	+.61
123	Accelerate tax rate increase	+.03		+.03
124	Increase tax rate on self-employment	+.17	+.02	+.19
124	Adjust self-employment income	−.02	−.00	−.03
125	Change DI tax rate allocation	+.81	−.81	
131	Continue benefits on remarriage	−.00	−.00	−.00
132	Pay divorced spouses of non-retired workers	−.01	−.00	−.01
133	Modify indexing of widow(er) benefits	−.05		−.05
134	Raise disabled widow(er)'s benefits	−.01		−.01
151	Modify military credits financing	+.01	+.00	+.01
152	Reimburse unnegotiated checks	+.00	+.00	+.00
324	Tax certain salary reduction plans	+.03	+.00	+.03
337	Modify public pension offset	−.00	−.00	−.00
340	Suspend auxiliary benefits for certain aliens	+.00	+.00	+.00
348	Modify earnings test at ages 65 and over [2]	−.01		−.01
	All other provisions of Titles I and III	−.00	−.00	−.00
	Subtotal for the effect of the above provisions [3]	+2.07	−.68	+1.38
	Remaining deficit after the above provisions	−.85	+.15	−.71
	Additional change relating to long-term financing (Title II of the amendments): [4]			
201	Raise normal retirement age to 67	+.83	−.12	+.71
	Total effect of all of the provisions [5]	+2.89	−.80	+2.09
	New law:			
	Actuarial balance	−.03	+.03	−.00
	Average income rate	11.47	1.42	12.89
	Average cost rate	11.50	1.39	12.89

[1] The values for each of the individual provisions listed from Title I and Title III represent the effect over old law and do not take into account interaction with other provisions, with the exception of Section 348.

[2] Estimates for modifying the earnings test take into account interaction with Section 114, which increases delayed retirement credits.

[3] The values in the subtotal for all provisions included in Title I and Title III take into account the estimated interactions among these provisions.

[4] The values take into account interaction with the provisions included in Title I and Title III.

[5] The values for the total effect of the amendments take into account interactions among all provisions.

Note: The above estimates are based on the 1983 alternative II–B assumptions. Individual estimates may not add to totals due to rounding and/or interaction amount proposals.

The estimated effects of the various provisions in Public Law 98-21 on the long-range actuarial balance of the OASDI program are shown in table 19. It may be observed from this table that the long-range OASDI actuarial deficit of 2.09 percent of taxable payroll, that was estimated under the old law, was eliminated by the 1983 amendments. The 1985 Trustees' Report shows a 0.41 75-year deficit, which is considered to put the trust funds within close actuarial balance.

Table 20 shows a comparison of the estimated cost rate with the estimated income rate for selected years from 1986 through 2060. As indicated previously, the income rate is the sum of the scheduled tax rate and the income from taxation of benefits expressed as a percentage of taxable payroll. The scheduled tax rates for employees and employers, combined, are:

[In percent]

Calendar year	OASI	DI	Total
1986–87	10.40	1.00	11.40
1988–89	11.06	1.06	12.12
1990–99	11.20	1.20	12.40
2000 and later	10.98	1.42	12.40

Table 20 shows that, on the basis of the 1985 alternative II–B assumptions, estimated income will exceed the estimated cost of the program through the second decade of the next century. After the year 2020, income from scheduled payroll taxes and from the taxation of benefits will not be large enough to cover estimated annual costs, although the accumulated trust fund balance will be sufficient to allow the program to continue operating satisfactorily for many years. The average actuarial balances are estimated to be a surplus of 2.00 percent of taxable payroll for the first 25 years of the long-range projection period and a deficit of 0.78 percent for the second 25 years. The surplus is offset by an estimated deficit of 2.46 percent of taxable payroll in the third 25-year period of the 75-year projection period.

Table 21 shows the estimates of OASI and DI trust fund ratios under the amended program for each year from 1981 through 2060. As a percent of annual expenditures, the combined assets of the OASI and DI trust funds are estimated to grow until the latter part of the second decade in the next century, reaching levels of about 495 percent of annual expenditures in 2014. Thereafter, the combined trust fund ratios decline steadily to less than 50 percent by 2047.

The trust fund ratio for OASI exhibits a similar pattern—increasing to about 537 percent in the second decade of the next century and declining thereafter to less than 50 percent by 2049. The DI trust fund increases to about 264 percent of annual expenditures by the first decade of the next century and declines to exhaustion by the year 2035.

TABLE 20.—ESTIMATED LONG-RANGE OASDI ANNUAL COST RATE, INCOME RATE, AND ACTUARIAL BALANCE UNDER THE PROGRAM BASED ON ALTERNATIVE II–B OF 1985 TRUSTEES' REPORTS

[Percent of taxable payroll]

Year	Cost rate			Income rate			Actuarial balance [1]		
	OASI	DI	OASDI	OASI	DI	OASDI	OASI	DI	OASDI
1985	10.10	1.19	11.29	10.59	1.01	11.61	+.49	−.17	+.32
1986	9.98	1.11	11.09	10.61	1.01	11.62	+.63	−.09	+.53
1987	9.97	1.08	11.05	10.63	1.02	11.64	+.66	−.07	+.59
1988	9.97	1.06	11.04	11.31	1.08	12.38	+1.33	+.01	+1.34
1989	9.95	1.05	11.00	11.33	1.08	12.40	+1.38	+.03	+1.41
1990	10.03	1.04	11.07	11.49	1.22	12.71	+1.46	+.18	+1.64
1991	10.01	1.03	11.04	11.52	1.22	12.74	+1.51	+.19	+1.70
1992	10.00	1.03	11.03	11.54	1.22	12.77	+1.55	+.19	+1.74
1993	9.98	1.03	11.01	11.57	1.23	12.80	+1.59	+.19	+1.78
1994	9.96	1.04	11.00	11.60	1.23	12.83	+1.64	+.19	+1.83
1995	9.81	1.05	10.86	11.56	1.24	12.80	+1.75	+.19	+1.94
1996	9.65	1.07	10.72	11.56	1.24	12.80	+1.90	+.17	+2.08
1997	9.47	1.08	10.55	11.55	1.24	12.79	+2.09	+.16	+2.24
1998	9.26	1.09	10.35	11.55	1.24	12.79	+2.29	+.15	+2.44
1999	9.11	1.10	10.21	11.55	1.24	12.79	+2.43	+.14	+2.57
2000	9.04	1.12	10.17	11.33	1.46	12.79	+2.28	+.34	+2.62
2001	8.98	1.15	10.13	11.33	1.46	12.79	+2.34	+.31	+2.66
2002	8.93	1.18	10.11	11.33	1.46	12.79	+2.40	+.28	+2.68
2003	8.88	1.21	10.09	11.33	1.47	12.79	+2.45	+.25	+2.70
2004	8.84	1.25	10.09	11.33	1.47	12.80	+2.49	+.22	+2.70
2005	8.83	1.29	10.12	11.33	1.47	12.80	+2.50	+.18	+2.67
2006	8.86	1.34	10.20	11.33	1.47	12.81	+2.47	+.14	+2.61
2007	8.91	1.38	10.29	11.34	1.47	12.81	+2.43	+.10	+2.52
2008	8.98	1.42	10.40	11.34	1.48	12.82	+2.37	+.05	+2.42
2009	9.11	1.46	10.56	11.35	1.48	12.83	+2.25	+.02	+2.27
2010	9.26	1.48	10.74	11.36	1.48	12.84	+2.10	.00	+2.10
2015	10.38	1.60	11.98	11.42	1.49	12.91	+1.04	−.11	+.93
2020	11.85	1.66	13.51	11.50	1.49	12.99	−.35	−.17	−.52
2025	13.17	1.74	14.90	11.57	1.50	13.07	−1.59	−.24	−1.83
2030	14.01	1.69	15.70	11.63	1.50	13.13	−2.38	−.19	−2.57
2035	14.25	1.64	15.89	11.66	1.50	13.16	−2.59	−.15	−2.73
2040	14.06	1.65	15.71	11.67	1.50	13.17	−2.39	−.15	−2.54
2045	13.90	1.70	15.59	11.68	1.50	13.18	−2.21	−.19	−2.41
2050	13.88	1.70	15.58	11.68	1.50	13.18	−2.20	−.20	−2.40
2055	13.86	1.69	15.55	11.68	1.50	13.18	−2.18	−.18	−2.37
2060	13.83	1.69	15.51	11.68	1.50	13.18	−2.15	−.18	−2.33
25-year averages:									
1985–2009	9.46	1.15	10.62	11.33	1.29	12.62	+1.87	+.13	+2.00
2010–2034	12.14	1.65	13.79	11.52	1.49	13.01	−.62	−.16	−.78
2035–2059	13.96	1.68	15.64	11.68	1.50	13.18	−2.28	−.18	−2.46
75-year average: 1985–2059	11.85	1.49	13.35	11.51	1.43	12.94	−.35	−.07	−.41

---

[1] A positive balance indicates a surplus; a negative balance indicates a deficit.

Note: The above estimates are based on the 1985 alternative II–B assumptions.

TABLE 21.—ESTIMATED LONG-RANGE OASI AND DI TRUST FUND RATIOS

[In percent]

Year	OASI	DI	OASDI	Year	OASI	DI	OASDI
1981	18	21	18	2021	492	166	452
1982	15	17	15	2022	479	154	440
1983	15	14	14	2023	464	142	426
1984	20	35	21	2024	449	129	411
1985	24	26	24	2025	433	115	396
1986	24	27	25	2026	417	102	380
1987	26	33	27	2027	399	88	364
1988	30	28	30	2028	382	75	348
1989	43	29	41	2029	365	63	332
1990	57	33	54	2030	347	51	315
1991	73	50	71	2031	330	41	299
1992	89	69	87	2032	312	30	283
1993	105	87	104	2033	245	20	266
1994	122	105	121	2034	278	11	250
1995	141	122	139	2035	261	(1)	[2] 234
1996	162	137	159	2036	244	(1)	[2] 218
1997	184	151	181	2037	228	(1)	[2] 202
1998	210	163	205	2038	211	(1)	[2] 187
1999	237	174	230	2039	195	(1)	[2] 171
2000	263	182	254	2040	180	(1)	[2] 156
2001	288	204	279	2041	164	(1)	[2] 141
2002	314	224	304	2042	148	(1)	[2] 126
2003	341	239	328	2043	133	(1)	[2] 111
2004	367	250	353	2044	118	(1)	[2] 96
2005	394	258	376	2045	102	(1)	[2] 81
2006	420	262	399	2046	87	(1)	[2] 66
2007	445	264	420	2047	71	(1)	[2] 50
2008	468	262	440	2048	55	(1)	[2] 35
2009	487	259	455	2049	40	(1)	[2] 20
2010	503	256	468	2050	24	(1)	(1)
2011	517	251	480	2051	(1)	(1)	(1)
2012	526	245	488	2052	(1)	(1)	(1)
2013	533	238	492	2053	(1)	(1)	(1)
2014	536	231	495	2054	(1)	(1)	(1)
2015	537	223	495	2055	(1)	(1)	(1)
2016	535	215	493	2056	(1)	(1)	(1)
2017	531	206	489	2057	(1)	(1)	(1)
2018	524	196	482	2058	(1)	(1)	(1)
2019	515	187	474	2059	(1)	(1)	(1)
2020	504	177	463	2060	(1)	(1)	(1)

[1] The fund is projected to be exhausted.

[2] Because the DI fund is exhausted, these ratios are theoretical and are shown for information purposes only.

Note: The above estimates are based on the 1985 alternative II–B assumptions. The trust fund ratio is defined as the ratio of the trust fund balance at the beginning of the year to the outgo during the year. After 1983, ratios reflect the inclusion of advance tax transfers for January. These estimates assume that the remainder of the $12.4 billion borrowed by OASI from HI in 1982 will be repaid as follows: $5.0 billion in 1986, and $5.6 billion in 1987. It is also assumed that the remainder of the $5.1 billion borrowed from DI in 1982, $2.5 billion, will be repaid in 1986.

HI trust fund

Long-range estimates for the next 25 years are shown in table 22 for the HI program and are based on the alternative II-B assumptions. As in the case of the OASDI program, annual expenditures as a percentage of taxable earnings are shown in table 22 as the cost rate. The income rate for the HI program is simply the combined scheduled tax rate for employees and employers.

The average deficit over the 25-year period is 0.68 percent of taxable earnings. Last year, this deficit was estimated to be 1.37 percent of taxable earnings. Nevertheless, near the end of the 25-year period, either the tax rate must increase substantially or costs must decline.

TABLE 22.—ESTIMATED LONG-RANGE HI ANNUAL COST RATE, ANNUAL INCOME RATE, AND ACTUARIAL BALANCE

[Percent of taxable payroll]

	Expenditures under the program [1]	Trust fund building and maintenance [2]	Total cost of the program [3]	Tax rate scheduled in the law [4]	Difference
Calendar year:					
1984	2.71	0.07	2.79	2.60	−0.19
1985	2.67	.01	2.68	2.70	.02
1990	2.97	.09	3.05	2.90	−.15
1995	3.44	.04	3.48	2.90	−58
2000	3.79	.04	3.83	2.90	−.93
2005	4.09	.03	4.11	2.90	−1.21
25-year average: 1985 to 2009	3.52	.05	3.57	2.89	−.68

[1] Costs attributable to insured beneficiaries only. Benefits and administrative costs for noninsured persons are financed through general revenue transfers and premium payments, rather than through payroll taxes. Gratuitous credits for military service after 1956 are included in taxable payroll.

[2] Allowance for building and maintaining the trust fund balance at the level of a half year's outgo after accounting for the offsetting effect of interest earnings.

[3] Totals do not necessarily equal the sum of rounded components.

[4] Rates for employees and employers combined.

Note: The above estimates are based on the 1985 alternative II–B assumptions.

Source: Office of the Actuary, Health Care Financing Administration.

ECONOMIC AND DEMOGRAPHIC ASSUMPTIONS

The following tables provide specific information concerning the economic and demographic assumptions which underlie the social security trustees' short and long-run financial projections.

TABLE 23.—ECONOMIC ASSUMPTIONS, 1960–2060

Calendar years	Average annual percentage increase in—		Consumer Price Index	Real earnings differential (percent)	Average annual unemployment rate
	Real GNP	Average earnings in covered employment			
Past experience:					
1960–64	4.0	3.3	1.3	2.1	5.7
1965–69	4.4	5.4	3.4	2.1	3.8
1970–74	2.8	6.2	6.1	.2	5.4
1975–79	3.5	8.1	8.1	−.3	7.0
1980	−.3	8.1	13.5	−5.4	7.1
1981	2.5	8.3	10.3	−2.0	7.6
1982	−2.1	5.6	6.0	−.4	9.7
1983	3.7	4.3	3.0	1.2	9.6
Intermediate II–B:					
1984	6.8	5.3	3.4	1.9	7.5
1985	3.2	3.8	3.9	.0	6.9
1990	2.5	5.2	4.2	1.0	6.0
1991	2.5	5.4	4.0	1.4	6.0
1992	2.5	5.6	4.0	1.6	5.9
2000	2.6	5.6	4.0	1.6	6.0
2010 and later	[1] 2.0	5.5	4.0	1.5	6.0
Pessimistic:					
1985	.7	3.1	4.8	−1.7	7.4
1986	.0	4.4	5.9	−1.5	8.6
1987	4.3	7.4	5.1	2.3	7.7
1988	1.6	5.0	5.4	−.5	7.5
1989	−.7	4.5	5.9	−1.5	8.5
1990	4.0	7.1	4.6	2.4	7.9
2000	1.9	6.1	5.0	1.1	7.0
2010 and later	[1] 1.4	6.0	5.0	1.0	7.0

---

[1] This value is for the year 2010. The annual increase in real GNP is assumed to continue to change after 2010 under each alternative to reflect the dependence of labor force growth on the size and age-sex distribution of the population. The percentage increases for 2060 are 1.9 and 0.6 for Intermediate II–B and Pessimistic, respectively.

TABLE 24.—MAJOR LONG-TERM DEMOGRAPHIC AND LABOR FORCE PARTICIPATION ASSUMPTIONS

FERTILITY RATES

[1985 trustees' report II–B assumptions]

	1917	1933	1947	1957	1976	1981	1995	2009+
Children born per woman in her lifetime	3.33	2.17	3.18	3.68	1.74	1.82	1.90	2.00

LIFE EXPECTANCIES

[Using mortality for calendar year]

	1900	1940	1960	1980	2000	2020	2060
Male:							
At birth	46.4	61.4	66.7	69.9	73.9	75.0	76.9
Age 65	11.4	11.9	12.9	14.0	15.8	16.5	17.9
Female:							
At birth	49.0	65.7	73.2	77.5	81.2	82.3	84.6
Age 65	12.0	13.4	15.9	18.4	20.7	21.6	23.4

PERCENTAGE OF THOSE BORN WHO CAN EXPECT TO REACH AGE 65

[Using mortality for calendar year]

	1900	1940	1960	1980	2000	2020	2060
Male	37.3	55.5	63.8	70.5	78.2	79.7	82.1
Female	41.0	65.4	78.2	83.4	87.3	88.2	89.8

LABOR FORCE PARTICIPATION RATES

[Age adjusted]

[In percent]

	1981	1985	1990	1995	2000	2050+
Male	77.5	77.3	78.5	77.8	77.7	77.1
Female	52.3	54.5	57.9	58.9	58.9	58.1

COVERED WORK FORCE—NUMBER OF BENEFICIARIES AND DEPENDENCY RATIOS

	1960	1980	2000	2020	2040
Total population (in millions)	189	236	277	308	323
Covered workers	73	113	146	154	155
Beneficiaries	14	35	44	65	80
Dependency ratio [1]	.915	.749	.672	.737	.848
Worker/beneficiary ratio	5.1	3.2	3.3	2.4	1.9

[1] Ratio of nonworking-age to working-age population—population under 20 plus population 65 and over divided by population 20–64.

PERCENT OF ELIGIBLE WORKERS DRAWING RETIREMENT BENEFITS

Selected ages	1981	1990	2000	2010 and later
62 to 64:				
Male	39.0	44.0	44.0	44.0
Female	51.0	53.7	54.4	[1] 54.7
65 to 69:				
Male	90.0	93.0	93.0	93.0
Female	87.5	91.1	92.3	[1] 93.0

[1] Rises very slightly after 2010.

Source: Congressional Research Service.

Section 6. Trade Adjustment Assistance [1]

The trade adjustment assistance (TAA) programs were first established under the Trade Expansion Act of 1962 for the purpose of assisting in the special adjustment problems of workers and firms dislocated as a result of a Federal policy of liberalizing barriers to encourage increased foreign trade. As a result of limited eligibility and usage of the programs, criteria and benefits were liberalized under title II of the Trade Act of 1974, Public Law 93-618. The Omnibus Budget Reconciliation Act of 1981 (OBRA), Public Law 97-35, reformed the program for workers as proposed by the Administration. The amendments, particularly in program eligibility and benefits, were intended to reduce program cost significantly and to shift its focus from income compensation for temporary layoffs to return to work through training and other adjustment measures for the long-term or permanently unemployed. The OBRA also made relatively minor modifications in the firm program. Most amendments became effective on October 1, 1981. Both programs were extended at that time for 1 year, to terminate on September 30, 1983.

Public Law 98-120 (H.R. 3813 as amended by the Senate), approved on October 12, 1983, extended the worker and firm TAA programs for 2 years until September 30, 1985. Sections 2671-2673 of the Deficit Reduction Act of 1984, Public Law 98-369, included three provisions (sections 3, 6, and 8 of H.R. 3391 as passed by the House on September 15, 1983) which amended the program for workers to increase the availability of worker training allowances and the level of job search and relocation benefits, and amended the program for firms to increase the availability of industrywide technical assistance.

The termination date of the worker and firm TAA programs was further amended under temporary extension legislation in the first session of the 99th Congress (Public Laws 99-107, 99-155, 99-181, and 99-189) until December 19, 1985. The Conference Report on H.R. 3128, the Consolidated Omnibus Budget Reconciliation Act of 1985, contains a six-year reauthorization of the TAA programs from date of enactment, with amendments.

TRADE ADJUSTMENT ASSISTANCE PROGRAM FOR WORKERS

Trade adjustment assistance for workers under sections 221 through 250 of the Trade Act of 1974, as amended, consists of trade readjustment allowances (TRA), employment services, training and extended TRA allowances while in training, and job search and relocation allowances for certified and otherwise qualified workers. The program is administered by the Employment and Training Administration (ETA) of the Department of Labor through State employment security agencies under cooperative agreements between each State and the Secretary of Labor. ETA processes petitions and issues certifications or denials of petitions by groups of workers for eligibility to apply for TAA. The State agencies act as Federal agents in processing applications and determining individual worker eligibility for benefits, issuing payments, and providing reemployment services and training opportunities.

---

[1] The statutory termination date of the worker and firm trade adjustment assistance programs is December 19, 1985. As of February 18, 1986, this date has not been extended. In the meantime, however, certain program activities are continuing as funded in fiscal year 1986 appropriations.

TABLE 1.—NUMBER OF PETITIONS INSTITUTED AND CERTIFIED AND ESTIMATED NUMBER OF WORKERS PETITIONING AND CERTIFIED FOR TRADE ADJUSTMENT ASSISTANCE, TOTAL AND BY INDUSTRY FROM APRIL 1975 THROUGH DECEMBER 31, 1985

Year	Cases instituted		Cases certified		
	Petitions	Estimated workers	Petitions	Percent[1]	Estimated workers
1975	528	210,987	121	50	54,842
1976	1,014	218,541	430	45	143,578
1977	1,289	227,562	411	38	143,714
1978	1,732	171,315	854	42	164,416
1979	2,119	320,701	844	41	221,469
1980	5,347	1,027,162	935	29	585,330
1981	1,134	132,216	260	9	32,987
1982	1,030	170,254	254	20	19,998
1983	959	163,753	482	34	57,269
1984	504	41,388	337	52	14,393
1985	1,392	120,252	474	60	55,042
Total	17,048	2,804,131	5,418	33	1,493,038

[1] Estimated percent of petitioning workers covered by completed cases; figures are not precise but indicate the trend.

Certification requirements

A two-step process is involved in the determination of whether an individual worker will receive trade adjustment assistance: (1) certification by the Secretary of Labor of a petitioning group of workers in a particular firm as eligible to apply; and (2) approval by the State agency administering the program of the application for benefits of an individual worker covered by a certification.

The process begins by a group of three or more workers, their union, or authorized representative filing a petition with the ETA for group eligibility. To certify a petitioning group of workers as eligible to apply for adjustment assistance, the Secretary must determine that three conditions are met:

1. A significant number or proportion of the workers in the firm or subdivision of the firm have been or are threatened to be totally or partially laid off;

2. Sales and/or production of the firm or subdivision have decreased absolutely; and

3. Increased imports of articles like or directly competitive with articles produced by the firm or subdivision of the firm have "contributed importantly" to both the layoffs and the decline in sales and/or production.

	Thousands
Total estimated number of workers certified	1,493
Industry:	
Automobiles	722
Steel	166
Apparel	166
Footwear	87
Electronics	66
Fabricated metal products	39
Textiles	27

Source: Department of Labor.

Eligibility requirements for trade readjustment allowances

In order to receive entitlement to a trade readjustment allowance for any week of unemployment, an individual worker covered by a certification must file an application with his State employment security office and meet the following eligibility requirements:

1. The worker's last total or partial layoff before application must have occurred not more than 1 year prior to the date of the petition, on or after the "impact date" (i.e., the date on which total or partial layoffs began or threatened to begin), within 2 years after the date the Secretary of Labor issued the certification covering the worker, and before the termination date (if any) of the certification; and

2. The worker was employed at least 26 of the 52 weeks preceding last layoff in adversely affected employment with a single firm or subdivision thereof at wages of $30 or more per week.

A week of employment includes the week in which layoff occurs and up to 3 weeks of employer-authorized vacation, sick, injury, maternity, or military leave, or service as a union representative, up to 7 weeks of disability covered by workmen's compensation, or up to 7 weeks of leave and disability combined, of which no more than 3 weeks may consist of authorized leave.

In addition, the OBRA amended the program to include the following TRA eligibility limitations:

1. Under the program prior to October 1, 1981, TRA benefits were a supplement to state unemployment insurance and paid concurrently during weeks the worker was eligible for UI. A fundamental change under the current program makes TRA benefits a continuation of the UI program by requiring the worker to exhaust all rights to UI, including any extended ben-

efits (EB) or Federal supplemental compensation (FSC), to which the worker is entitled in the most recent benefit period before becoming eligible for any TRA payments. The worker is also ineligible for TRA benefits for any subsequent week of entitlement to payment for any further UI or waiting period credit.

2. All TRA claimants in all States are subject to the provisions of the EB "suitable work" test under section 202(a)(3) of the Federal-State Extended Unemployment Compensation Act of 1970 after the end of their regular UI benefit period as a precondition for receiving any weeks of TRA payments. Workers are not disqualified for TRA benefits if in State-approved training prior to eligibility or for any form of TAA because of subsequently leaving employment which is not of a substantially equal or higher skill and wage level than previous employment.

3. Workers are entitled to TRA payments only for weeks of unemployment which begin more than 60 days after the filing date of the petition, i.e. after the statutory deadline for certification. Workers can continue to be certified for layoffs occurring up to 1 year prior to the petition filing date in order to qualify for other TAA benefits, but can no longer receive TRA payments retroactively beyond the date certification is supposed to take place.

4. No TRA payment can be made for a UI waiting week.

5. As a further encouragement to reemployment, the Secretary of Labor may require all workers in a labor market area with certain economic characteristics either to accept training or to extend job search beyond their labor market area after their first 8 weeks of TRA eligibility if they have been approved for training.

Benefit levels and duration

TRA benefits prior to October 1, 1981, were 70 percent of the worker's former gross weekly wage not to exceed the average weekly manufacturing wage, reduced by the amount of his unemployment compensation entitlement, 50 percent of any part-time earnings, and certain training allowances paid under Federal law. Eligible workers could collect basic benefits for up to 52 weeks of unemployment during a maximum two-year period following layoff.

The following major changes under the OBRA, effective as of October 1, 1981, reduced program costs and were intended to remove reemployment disincentives associated with the previous high net wage replacement and the inequity in benefit amounts between import-impacted workers and workers laid off for other reasons:

1. The TRA weekly benefit amount is the same as, and a continuation of, the claimant's unemployment insurance weekly benefit amount during the most recent UI benefit period, reduced by any training allowance and disqualifying income deductible under UI law. This change has shifted the TRA benefit level from a uniform national standard to a State standard.

2. The total amount of basic TRA benefits payable to a worker is a maximum of 52 times the TRA allowance level for a week of total unemployment minus the total amount of UI

BEST COPY AVAILABLE

benefits payable in the worker's most recent benefit period (e.g., a worker receiving 39 weeks of UI regular and extended benefits could receive a maximum 13 weeks of TRA benefits). UI and TRA payments combined are limited to a maximum 52 weeks in all cases involving extended benefits. TRA basic benefits may be collected only during the 52-week period following the week in which the worker has exhausted all rights to regular unemployment compensation in the most recent benefit period. The purpose of the shortened collection period was to reduce payment of TRA benefits during periods of non-trade-related unemployment.

3. Workers may receive up to 26 additional weeks of TRA benefits to assist in completing approved training, if the worker applies for the training program within 210 days (compared to 180 days previously) after certification or layoff, whichever date is later. The additional benefits may be collected only during the 26-week period (compared to 52-week period under the previous program) following the worker's last week of entitlement to basic TRA benefits. As amended in 1984, if training has not been approved until after the last week of entitlement to basic TRA, the 26-week collection period begins with the first week the worker enters training.

TABLE 2.—TOTAL OUTLAYS FOR TRADE READJUSTMENT ALLOWANCES, NUMBER OF RECIPIENTS, AVERAGE WEEKLY PAYMENTS AND DURATION, FISCAL YEARS 1976 THROUGH 1985

Fiscal year	Total outlays (millions)	Total number of recipients (thousands)	Average weekly payment per recipient	Average week's duration
1975 (4th quarter)	$71	47	$58	26.0
1976 [1]	79	62	47	27.3
1977	148	111	57	23.4
1978	257	156	68	24.3
1979	256	132	70	27.4
1980	1,622	532	126	24.1
1981	1,440	281	140	36.5
1982	103	30	119	28.4
1983	37	30	120	10.1
1984	35	16	139	16.0
1985 (estimated)	43	21	133	15.5
Total	4,091	1,418	111	25.9

[1] Fiscal year 1976 is the first full year of experience under the program as amended by the Trade Act of 1974.

Note: The above figures relate only to trade readjustment allowances; administrative expenses and outlays for employment services, training, and job search and relocation allowances are not included.

Source: Department of Labor.

Training and other employment services, job search and relocation allowances

Training and other employment services and job search and relocation allowances are available through State agencies to certified workers whether or not they have exhausted UI benefits and become eligible for TRA payments.

Employment services consist of counseling, vocational testing, job search and placement, and other supportive services, as appropriate.

Training, preferably on-the-job, *may* be approved for a worker if the following five conditions are met: (1) there is no suitable employment available; (2) the worker would benefit from appropriate training; (3) there is a reasonable expectation of employment following training completion; (4) approved training is available from government agencies or private sources; and (5) the worker is qualified to undertake and complete such training. While training itself is not an entitlement even if the above conditions are met, if training is approved, a worker is entitled to payment of the costs. As a result, the Department of Labor has added administratively another condition prohibiting State agencies from approving training if sufficient funds have not been appropriated and allocated to pay the costs.

Supplemental assistance is available to defray reasonable transportation and subsistence expenses for separate maintenance when training is not within the worker's commuting distance, equal to the lesser of actual per diem expenses or 50 percent of the prevailing Federal per diem rate for subsistence and prevailing mileage rates under Federal regulations for travel expenses.

Job search allowances are available to certified workers who cannot obtain suitable employment within their commuting area, are totally laid off, and who apply within 1 year after certification or last total layoff, whichever is later, or within 6 months after concluding training. As amended in 1981 and 1984, the allowance for reimbursement is equal to 90 percent of necessary job search expenses, based on the same increased supplemental assistance rates described above, up to a maximum amount of $800.

Relocation allowances are available to certified workers totally laid off at time of relocation who have been able to obtain an offer of or actual suitable employment only outside their commuting area, who apply within 14 months after certification or last total layoff, whichever is later, or within 6 months after concluding training, and whose relocation takes place within 6 months after application or completion of training. As amended in 1981 and 1984, the allowance is equal to 90 percent of reasonable and necessary expenses for transporting the worker, family, and household effects, based on the same increased supplemental assistance rates described above, plus a lump sum payment of three times the worker's average weekly wage up to a maximum amount of $800.

TABLE 3.—TRAINING, JOB SEARCH, AND RELOCATION ALLOWANCES: TOTAL NUMBER OF WORKERS AND OUTLAYS, FISCAL YEARS 1976 THROUGH 1985

Fiscal year	Total number			Total outlays (millions) [1]		
	Entered training	Job searches	Relocations	Training	Job searches	Relocations
1975 (4th quarter)	463	158	44			
1976	823	23	26	(2)	(2)	(2)
1977	4,213	277	191	(3)	(3)	$0.2
1978	8,337	1,072	631	$12.0	$0.2	.6
1979	4,458	1,181	855	12.0	.3	1.2
1980	[4] 9,475	931	629	5.2	.1	.7
1981	[4] 20,386	1,491	2,011	1.9	.3	2.0
1982	5,844	697	662	18.4	(5)	(5)
1983	11,299	696	3,269	33.0	(6)	(6)
1984	6,821	799	2,220	16.5	.2	2.3
1985 (3 quarters)	3,712	596	793	8.5	.1	1.0
Total	75,831	7,921	11,331			

[1] Excludes administrative costs.

[2] Total $2.7.

[3] Total $3.8.

[4] Of total workers entering training, 5,640 (59 percent) in 1980 and 18,940 (94 percent) in 1981 self-financed their training costs.

[5] Total outlays of $1.0 million for job search and relocation expenses.

[6] Total outlays of $3.0 million for job search and relocation expenses.

Source: Department of Labor.

Funding

Federal funds, through annual appropriations from Treasury general revenues, cover only the portion of the worker's total entitlement represented by the continuation of UI benefit levels in the form of TRA payments, plus the salaries and expenses for ETA personnel administering the program. Funds made available under grants to States defray expenses of any employment services. Funding for training, job search and relocation allowances, and related expenses is subject to annual appropriations.

For fiscal year 1986, $26 million is appropriated for training and job search and relocation allowances. Estimated outlays for trade readjustment allowance payments total $70 million.

The States are reimbursed from Treasury general revenues for benefit payments and other costs incurred under the program. A penalty under section 239 of the Trade Act of 1974 provides for reduction by 15 percent of the credits for State unemployment taxes which employers are allowed against their liability for Federal unemployment tax if a State has not entered into or has not fulfilled its commitments under a cooperative agreement.

TRADE ADJUSTMENT ASSISTANCE PROGRAM FOR FIRMS

Section 251 through 264 of the Trade Act of 1974, as amended, contain the procedures, eligibility requirements, benefits and their terms and conditions, and administrative provisions of the trade adjustment assistance program for firms adversely impacted by increased import competition. Administration of the program was transferred in 1982 within the Department of Commerce from the Economic Development Administration to the International Trade Administration.

Program benefits consist of technical and/or financial assistance for petitioning firms which qualify under a two-step procedure: (1) certification by the Secretary of Commerce that the petitioning firm is eligible to apply, and (2) approval by the Secretary of Commerce of the application by a certified firm for benefits, including the firm's proposal for economic adjustment.

To certify a firm as eligible to apply for adjustment assistance, the Secretary must determine that three conditions are met:

1. A significant number or proportion of the workers in the firm have been or are threatened to be totally or partially laid off;
2. Sales and/or production of the firm have decreased absolutely; and
3. Increased imports of articles like or directly competitive with articles produced by the firm have "contributed importantly" to both the layoffs and the decline in sales and/or production.

A certified firm may file an application with the Secretary of Commerce for trade adjustment assistance benefits at any time within 2 years after the date of the certification of eligibility. The application must include a proposal by the firm for its economic adjustment. The Secretary may furnish technical assistance to the firm in preparing its petition for certification and/or in developing a viable economic adjustment proposal.

The firm's application must meet the following requirements for approval of technical and/or financial assistance:

1. The firm has no reasonable access to financing through the private capital market.
2. The adjustment proposal demonstrates that the assistance sought (a) is reasonably calculated to make a material contribution to the economic adjustment of the firm in establishing a competitive position in the same or a different industry; (b) gives adequate consideration to the interest of the workers in the firm; and (c) demonstrates the firm will make all reasonable efforts to use its own resources for economic development.

In addition, the Secretary must determine that a firm seeking financial assistance (1) does not have the required funds available from its own resources; and (2) there is reasonable assurance that the loan will be repaid.

Benefits

Technical assistance and financial assistance may be furnished singly or in combination to certified firms with approved applications.

Technical assistance may be given to implement the firm's economic adjustment proposal in addition to, or in lieu of, precertification assistance or assistance in developing the proposal. It may be furnished through existing government agencies or through private individuals, firms, and institutions (including private consulting services), or by grants to intermediary organizations, including regional Trade Adjustment Assistance Centers. The Federal share cannot exceed 75 percent of the cost of assistance furnished through private individuals, firms, or institutions. Grants may be made to intermediate organizations to defray up to 100 percent of their administrative expenses in providing technical assistance.

As amended in 1981 and 1984, the Secretary of Commerce also may provide technical assistance of up to $10 million annually per industry to establish industrywide programs for new product or process development, export development, or other uses consistent with adjustment assistance objectives. The assistance may be furnished through existing agencies, private individuals, firms, universities, and institutions, and by grants, contracts, or cooperative agreements to associations, unions, or other nonprofit organizations of industries in which a substantial number of firms or workers have been certified.

Financial assistance may be direct loans and/or loan guarantees for (1) acquiring, constructing, installing, modernizing, developing, converting, or expanding land, plant, buildings, equipment, facilities, or machinery; or (2) supplying such working capital as may be necessary to enable the firm to implement its adjustment proposal. The Secretary, in considering whether to provide financial assistance, must give preference to firms which establish an employee stock ownership plan.

Direct loans to any firm cannot exceed an aggregate amount of $1 million outstanding at any time. The interest rate is determined by the Secretary of the Treasury, plus an amount adequate to cover administrative costs and probable losses under the program.

Loan guarantees to any firm cannot exceed an aggregate amount of $3 million outstanding at any time. No loan can be guaranteed for more than 90 percent of the balance of the loan outstanding.

Maturities of direct loans and loan guarantees normally cannot exceed 10 years on working capital loans and 25 years or the useful life of the fixed assets, whichever is less, on loans for land, plant, building, equipment, or machinery.

Funding

Funds to cover all costs of the program are subject to annual appropriations to the International Trade Administration of the Department of Commerce from general revenues. For fiscal year 1986, a total of $18.5 million was appropriated for the program, including $14.5 million for technical assistance grants, $2.0 million in prior loan repayments for direct loans, and $2.0 million for administration. Loan guarantee authority of $6 million is also available. In addition, unobligated balances of $6.1 million appropriated in fiscal year 1985 are available for direct loans in fiscal year 1986.

TABLE 4.—NUMBER OF FIRMS CERTIFIED AND TECHNICAL AND FINANCIAL ASSISTANCE AUTHORIZED FOR THE PERIOD FROM APRIL 1975 THROUGH SEPTEMBER 30, 1985

[Dollars in thousands]

Number of firms certified	2,590
Number certified by industry: [1]	
Apparel	571
Machinery and equipment	338
Leather, leather goods	261
Metal products	237
Textiles	151
Lumber, wood products, furniture	122
Technical assistance: Number of firms receiving assistance	[2] 4,737
Total assistance authorized	$133,185
Individual firms	$94,241
Industrywide	$38,944
Financial assistance: Number of firms receiving loans	337
Total loans authorized	$381,151
Direct loans	$206,057
Loan guarantees	$175,094

[1] Through Sept. 30, 1984.

[2] Double counting is unavoidable since most firms receive more than one category of technical assistance.

Source: Department of Commerce.

LEGISLATIVE CHANGES DURING 1985

Sections 13001–13011 of the pending Conference Report on H.R. 3128, the Consolidated Omnibus Budget Reconcilation Act of 1985, would reauthorize the TAA programs for workers and firms for six years from date of enactment, with significant amendments.

Section 7. Unemployment Compensation

OVERVIEW

The Social Security Act of 1935 (Public Law 74-271) created the Federal-State unemployment compensation (UC) system. It has two main objectives: (1) to provide temporary and partial wage replacement to involuntarily unemployed workers who were recently employed; and (2) to help stabilize the economy during recessions. The U.S. Department of Labor oversees the system, but each State administers its own program. Because Federal law defines the District of Columbia, Puerto Rico, and Virgin Islands as "States" for the purposes of unemployment compensation, there are 53 State programs.

The Federal Unemployment Tax Act of 1939 (Public Law 76-379) and titles III, IX, and XII of the Social Security Act form the framework of the system. The Federal Unemployment Tax Act (FUTA) currently imposes a 6.2 percent gross tax rate on the first $7,000 paid annually by covered employers to each employee. Employers in States with programs approved by the Federal Government and with no delinquent Federal loans may credit 5.4 percentage points against the 6.2 percent tax rate, making the minimum, net Federal unemployment tax rate 0.8 percent. This Federal revenue finances administration of the system, half of the Federal-State extended benefits program, and a Federal account for State loans. In theory, the States are supposed to use the revenue turned back to them by the 5.4 percent credit to finance their regular State programs and half of the Federal-State extended benefits program.

TABLE 1.—UNEMPLOYMENT COMPENSATION PROGRAM STATISTICS

	Fiscal year—										
	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986 (revised estimate) [2]	1987 (estimate)
Total civilian unemployment rate (percent)	7.4	6.2	5.8	6.8	7.3	9.1	10.1	7.8	7.2	6.9	6.7
Insured unemployment rate (percent) [1]	4.1	3.5	3.1	3.8	3.5	4.4	4.3	2.9	2.9	2.7	2.6
Coverage (millions of individuals)	70.0	79.9	86.1	87.0	88.2	86.8	86.3	89.9	93.0	95.2	97.3
Average weekly benefit amount (dollars)	76	80	85	96	102	114	120	119	122	126	131
State unemployment compensation:											
Beneficiaries (millions of individuals)	8.4	7.7	7.8	9.9	8.8	11.4	9.9	7.6	8.4	8.1	8.0
Regular benefit exhaustions (millions of individuals)	2.9	2.2	2.0	2.7	3.2	3.7	4.6	2.8	2.6	2.8	2.6
Regular benefits paid (billions of dollars)	8.94	8.32	8.74	12.95	13.46	19.34	20.84	13.3	14.3	14.5	14.8
Extended benefits (State share: billions of dollars)	.95	.51	.12	.56	1.06	.93	1.21	.03	.03	.02	.02
State tax collections (billions of dollars)	9.25	11.03	12.27	11.91	12.37	12.77	14.43	19.04	20.01	18.4	17.0
State trust fund impact (income-outlays: billions of dollars)	−.64	+2.20	+3.41	−1.60	−2.15	−7.50	−7.62	+5.70	+5.65	+3.92	+2.18
Federal unemployment compensation accounts:											
Federal tax collections (billions of dollars) [3]	1.87	2.60	2.91	3.19	3.26	3.18	3.58	5.02	4.44	3.98	4.80
Outlays: Federal extended benefits share plus Federal supplemental benefits (billions of dollars)	2.61	.69	.12	.56	1.06	.97	6.80	3.01	.03	.02	.02
Administrative costs (billions of dollars):											
Unemployment Insurance Service	.96	.93	.97	1.15	1.32	1.42	1.70	1.58	1.58	1.58	1.74
Employment Service	.60	.64	.70	.73	.73	.68	.72	.76	.92	.93	.90
Total administrative costs	1.56	1.57	1.67	1.88	2.05	2.10	2.42	2.31	2.50	2.51	2.64

[1] The percent of workers covered under State unemployment compensation programs who collected unemployment compensation benefits.

[2] Based on President's 1987 budget.

[3] Net of reduced credits.

Sources: Office of Research, Legislation and Program Policies/ETA/UIS/DOL, Division of Actuarial Services, and U.S. Budget Appendixes.

The Federal Unemployment Tax Act (FUTA) determines covered employment. FUTA also imposes certain requirements on the State programs, but the States generally determine individual qualification requirements, disqualification provisions, eligibility, weekly benefit amounts, potential weeks of benefits, and the State tax structure used to finance all of the regular State benefits and half of the extended benefits.

The Social Security Act provides for the administrative framework. Title III authorizes Federal grants to the States for administration of the State UC laws. Title IX authorizes the various components of the Federal Unemployment Trust Fund. Title XII authorizes advances or loans to insolvent State UC programs.

The Unemployment Trust Fund

The Federal unified budget accounts for all Federal-State UC outlays and taxes in the Federal Unemployment Trust Fund. The Unemployment Trust Fund has 59 accounts. The accounts consist of 53 State UC program accounts, the Railroad Unemployment Insurance Account, Railroad Administration Account, and four Federal accounts. The status of each State program account at the beginning of fiscal year 1986 is shown in table 2.

The economic recovery and expansion have improved the fiscal condition of the unemployment trust fund. State debt declined from $9.8 billion at the beginning of fiscal year 1985 to $6.3 billion at the beginning of fiscal year 1986. The number of States with Federal loans decreased from 19 to 13.

TABLE 2.—STATE UNEMPLOYMENT TRUST FUND ACCOUNT BALANCES AT THE BEGINNING OF FISCAL YEAR 1986

[Dollars in millions]

State	1986 beginning balance	Minus loans outstanding at beginning of 1986	1986 adjusted beginning balances	Adjusted 1986 beginning balance as a percent of total wages in State [3]
Alabama	$362			1.8
Alaska	149			2.5
Arizona	324			1.7
Arkansas	95			0.9
California	3,535			1.7
Colorado	80			0.3
Connecticut	155	104	51	0.2
Delaware	63			1.3
District of Columbia	37			0.4
Florida	1,365			2.1
Georgia	587			1.5
Hawaii	162			2.6
Idaho	75			1.6

TABLE 2.—STATE UNEMPLOYMENT TRUST FUND ACCOUNT BALANCES AT THE BEGINNING OF FISCAL YEAR 1986—Continued

[Dollars in millions]

State	1985 beginning balance	Minus loans outstanding at beginning of 1985	1985 adjusted beginning balances	Adjusted 1985 beginning balance as a percent of total wages in State [3]
Illinois	51	1,133	−1,082	−1.2
Indiana	384			1.1
Iowa	41			0.2
Kansas	304			2.0
Kentucky	79			0.4
Louisiana	0	521	−521	−1.9
Maine	74			1.2
Maryland	371			1.3
Massachusetts	929			1.8
Michigan	423	1,292	−869	−1.3
Minnesota	0	86	−86	−0.3
Mississippi	336			3.1
Missouri	213			0.6
Montana	7			0.2
Nebraska	75			0.8
Nevada	177			2.5
New Hampshire	115			1.7
New Jersey	933	213	720	1.1
New Mexico	110			1.5
New York	1,707			1.1
North Carolina	825			2.2
North Dakota	2			0.1
Ohio	(1)	967	−967	−1.3
Oklahoma	118			0.6
Oregon	244			1.5
Pennsylvania	0.6	1,330	−1,329	−1.7
Puerto Rico	128	22	106	1.5
Rhode Island	61			0.1
South Carolina	87			0.5
South Dakota	32			1.1
Tennessee	375			1.4
Texas	9			0.0
Utah	144			1.6
Vermont	36			1.2
Virginia	411			1.2

TABLE 2.—STATE UNEMPLOYMENT TRUST FUND ACCOUNT BALANCES AT THE BEGINNING OF FISCAL YEAR 1986—Continued

[Dollars in millions]

State	1986 beginning balance	Minus loans outstanding at beginning of 1986	1986 adjusted beginning balances	Adjusted 1986 beginning balance as a percent of total wages in State [3]
Virgin Islands	4	3	1	−0.2
Washington	164			0.6
West Virginia		249	−249	−2.6
Wisconsin	135	389	−254	−0.8
Wyoming	42			1.2
Total [2]	16,138	6,322	−4,454	

[1] Less than $500,000.

[2] Figures may not correspond exactly in U.S. Treasury data because of rounding.

[3] Total wages in the State for the year ending December 31, 1984.

Source: U.S. Departments of Labor and Treasury.

The four Federal accounts are: (1) the Employment Security Administration Account (ESAA), which funds administration; (2) the Extended Unemployment Compensation Account (EUCA), which funds the Federal half of the extended benefits program; (3) the Federal Unemployment Account (FUA), which funds loans to insolvent State UC programs; and (4) the Federal Employee Compensation Account (FECA), which funds benefits for Federal civilian and military personnel authorized under 5 U.S.C. 85. Federal unemployment taxes finance the ESAA, EUCA, and FUA, but general revenues finance the FECA. Present law authorizes loans to ESAA, EUCA, and FUA from the general fund, which are interest-free for EUCA and FUA, but interest-bearing for ESAA.

Table 3 summarizes the financial status of these Federal accounts at the beginning of fiscal year 1986. The EUCA and FUA owed the general fund about $9.6 billion. This is a decrease of $5.1 billion or 35 percent below the prior year.

TABLE 3.—BALANCES IN THE FEDERAL ACCOUNTS OF THE UNEMPLOYMENT TRUST FUND AT THE BEGINNING OF FISCAL 1986

[In millions of dollars]

Accounts	Beginning balance	Minus general fund advances	Net beginning balance
Employment Security Administration	1,035	0	1,035
Extended unemployment compensation	12	−2,255	−2,243
Federal unemployment (State loans)	1,691	−7,344	....
Federal employee compensation	114	0	114
Total	2,852	−9,599	−1,094

Source: U.S. Department of Treasury.

BENEFITS

Coverage

In order to qualify for benefits, an unemployed person usually must have worked recently for a covered employer for a specified period of time and for a certain amount of wages. About 90 million individuals are covered by UC. This is approximately 97 percent of all wage and salary workers or about 9 out of 10 employed persons.

The Federal Unemployment Tax Act (FUTA) covers certain employers that State laws must also cover for employers in the States to qualify for the 5.4 percent Federal credit. Since employers in the States would lose this credit and their employees would not be covered if the States did not have this coverage, all States cover the following groups: (1) Except for nonprofit organizations, State-local governments, certain agricultural labor, and certain domestic service, FUTA covers employers who paid wages of at least $1,500 during any calendar quarter or who employed at least one worker in at least 1 day of each of 20 weeks in the current or prior year; (2) FUTA covers agricultural labor for employers who paid cash wages of at least $20,000 for agricultural labor in any calendar quarter or who employed 10 or more workers in at least 1 day in each of 20 different weeks in the current or prior year. In addition, section 3306(c)(1) of FUTA exempts certain alien farmworkers until January 1986; and (3) FUTA covers domestic service employers who paid cash wages of $1,000 or more for domestic service during any calendar quarter in the current or prior year.

FUTA requires coverage of nonprofit organization employers of at least four workers for 1 day in each of 20 different weeks in the current or prior year and State-local governments without regard to the number of employees. Nonprofit and State-local government organizations are not, however, required to pay Federal unemployment taxes, but instead may choose to reimburse the system for benefits paid to their laid off employees.

States may cover certain employment not covered by FUTA, but most States have not expanded FUTA coverage significantly. The excluded coverage involves: (1) self-employment; (2) certain agricultural labor and domestic service; (3) service for relatives; (4) service of patients in hospitals; (5) certain student interns; (6) certain alien farmworkers; and (7) certain seasonal camp workers.

The number of covered workers receiving unemployment compensation

Although the unemployment compensation (UC) system covers about 90 percent of the employed, table 4 shows that only about 37 percent of the unemployed received UC benefits in December 1985. This compares with a peak of 81 percent of the unemployed receiving UC benefits in April 1975 and a low point of about 27 percent in October 1985. Many other countries compensate unemployed persons at much higher rates. For example, in August 1984, Sweden, Germany, and Japan compensated over 60 percent of their unemployed while the comparable figure in the United States was 31 percent.

TABLE 4.—INSURED UNEMPLOYMENT AS A PERCENT OF TOTAL UNEMPLOYMENT

Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Avg.
1974.....	53	54	57	60	55	40	43	44	40	42	48	60	50
1975.....	66	73	77	81	79	72	77	79	73	74	76	80	76
1976.....	78	75	76	73	72	58	66	66	60	59	60	63	67
1977.....	67	66	66	66	59	46	52	49	47	48	49	57	56
1978.....	54	54	50	47	44	36	39	42	35	37	34	43	43
1979.....	48	48	47	47	42	33	39	38	37	38	40	49	42
1980.....	52	51	53	52	49	45	49	49	55	49	50	54	50
1981.....	54	50	48	46	40	35	37	37	36	34	38	41	41
1982.....	47	44	48	49	45	40	42	42	43	48	49	47	45
1983.....	50	53	51	53	53	40	39	36	34	33	39	41	44
1984.....	40	38	38	36	34	30	31	31	30	31	31	38	34
1985.....	39	41	41	39	32	28	29	30	28	27	32	37	34

Source: USDOL/ETA/UIS, Division of Actuarial Services.

Eligibility

States have developed diverse and complex methods for determining unemployment compensation eligibility. In general there are three major factors: (1) the amount of recent employment and earnings; (2) demonstrated ability and willingness to seek and accept suitable employment; and (3) certain disqualifications related to a claimant's most recent job separation or job offer refusal.

Monetary qualifications

Table 5 shows the State monetary qualification requirements in the base year for the minimum and maximum weekly benefit amounts, and for the maximum total potential benefits. The base year is a recent 1-year period that most States (39) define as the first 4 of the last 5 completed calendar quarters before the unemployed person claims benefits. Most States require employment in at least 2 calendar quarters of the base year. Qualifying wages for the minimum weekly benefit amount vary from $150 in Hawaii to

$3,560 in Oklahoma. For the maximum weekly benefit amount, the range is $3,139 in Indiana to $22,500 in New Hampshire. The range of qualifying wages for the maximum total potential benefits, which is the product of the maximum weekly benefit amount and the maximum potential weeks of benefits, is $3,800 in Puerto Rico to $22,500 in New Hampshire.

TABLE 5.—MONETARY QUALIFICATION REQUIREMENTS FOR MINIMUM AND MAXIMUM WEEKLY BENEFIT AMOUNTS AND MAXIMUM TOTAL POTENTIAL BENEFITS IN 1986 [1]

State	Required total earnings in base year			Minimum work in base year (quarters) [3]
	For minimum weekly benefit	For maximum weekly benefit	For maximum potential benefits [2]	
Alabama	$774	$4,302	$9,358	2Q
Alaska	1,000	19,750	19,750	2Q
Arizona	1,500	4,668	9,748	2Q
Arkansas	1,260	9,828	14,742	2Q
California	1,200	5,533	8,630	
Colorado	1,000	22,152	22,152	
Connecticut	600	7,680	7,680	2Q
Delaware	720	15,210	15,210	
District of Columbia	900	8,625	13,000	2Q
Florida	400	7,000	18,200	2Q
Georgia	413	5,062	14,038	2Q
Hawaii	150	6,000	6,000	2Q
Idaho	1,716	6,981	16,289	2Q
Illinois	1,600	4,786	4,786	2Q
Indiana	2,500	3,139	9,360	2Q
Iowa	810	4,542	12,321	2Q
Kansas	1,410	5,700	14,820	2Q
Kentucky	1,500	11,772	11,772	2Q
Louisiana	300	7,669	19,739	2Q
Maine	1,685	4,897	11,386	2Q
Maryland	900	6,336	6,336	2Q
Massachusetts	1,200	6,210	17,250	
Michigan	2,010	8,620	15,085	2Q
Minnesota	1,485	6,840	14,872	2Q
Mississippi	1,200	4,600	8,970	2Q
Missouri	450	4,167	9,750	2Q
Montana	1,000	6,840	14,449	2Q
Nebraska	600	3,250	9,825	2Q
Nevada	600	6,225	12,948	2Q
New Hampshire	1,600	22,500	22,500	2Q
New Jersey	1,520	7,133	12,483	2Q
New Mexico	1,004	5,005	6,673	2Q

TABLE 5.—MONETARY QUALIFICATION REQUIREMENTS FOR MINIMUM AND MAXIMUM WEEKLY BENEFIT AMOUNTS AND MAXIMUM TOTAL POTENTIAL BENEFITS IN 1986[1]—Continued

State	Required total earnings in base year			Minimum work in base year (quarters)[3]
	For minimum weekly benefit	For maximum weekly benefit	For maximum potential benefits[2]	
New York	1,600	7,180	7,180	2Q
North Carolina	1,675	6,825	13,650	2Q
North Dakota	2,340	7,566	14,930	2Q
Ohio	1,702	5,880	7,644	2Q
Oklahoma	3,560	7,387	7,000	2Q
Oregon	1,000	16,880	16,880	2Q
Pennsylvania	1,320	9,200	9,200	2Q
Puerto Rico	280	3,800	3,800	2Q
Rhode Island	1,340	6,654	13,974	2Q
South Carolina	900	4,875	9,750	2Q
South Dakota	1,568	7,224	10,059	2Q
Tennessee	1,463	7,561	12,480	2Q
Texas	1,050	7,050	18,196	2Q
Utah	1,400	7,527	18,585	2Q
Virgin Islands	1,287	5,304	10,608	2Q
Vermont	700	5,820	5,820	2Q
Virginia	2,900	7,950	15,900	2Q
Washington	1,300	4,750	17,100	
West Virginia	2,200	21,250	21,250	2Q
Wisconsin	2,223	7,410	12,870	2Q
Wyoming	1,440	7,640	16,637	2Q

---

[1] Based on benefits for total unemployment. Amounts payable can be stretched out over a longer period in the case of partial unemployment.

[2] Based on maximum weekly benefit amount paid for maximum number of weeks. Total potential benefits equal a worker's weekly benefit amount times this potential duration.

[3] Number of quarters of work in base year required to qualify for minimum benefits. "2Q" denotes that State directly or indirectly requires work in at least 2 quarters of the base year. States without an entry have the minimum work requirement specified as a wage amount.

Source: U.S. Department of Labor.

Since the beginning of 1984, 10 States increased the required earnings in the base year to qualify for the minimum weekly benefit amount. Thirty-three States increased the qualification requirement for the maximum weekly benefit amount. Thirty States increased their qualification requirements for maximum potential benefits while one State cut these requirements.

Ability to work and availability for work

All State laws provide that a claimant must be: (1) able to work; and (2) available for work. A claimant must meet these conditions continually to receive benefits.

Only minor variations exist in State laws setting forth the requirements concerning "ability to work." A few States specify that a claimant must be mentally and physically able to work.

"Available for work" is often translated to mean being ready, willing, and able to work. In addition to registration for work at a local employment office, most State laws require that a claimant actively seek work or make a reasonable effort to obtain work. Generally, a person may not refuse an offer of or referral to "suitable work" without good cause.

"Suitable work" is generally work in a claimant's customary occupation, which meets certain health, safety, moral, and labor standards. Most State laws list certain criteria by which the "suitability" of a work offer is to be tested. The usual criteria include the degree of risk to a claimant's health, safety, and morals; the physical fitness and prior training, experience, and earnings of the person; the length of unemployment and prospects for securing local work in a customary occupation; and the distance of the available work from the claimant's residence. Generally, as the length of unemployment increases the claimant is required to accept a wider range of jobs.

In addition, Federal law requires States to deny benefits provided under the extended benefit and Federal supplemental compensation programs to any individual who fails to accept any work that is offered in writing or is listed with the State employment service, or fails to apply for any work to which he or she is referred by the State agency, if the work is within the person's capabilities, pays wages equal to the highest of the Federal or any State or local minimum wage, pays a gross weekly wage that exceeds the person's average weekly unemployment compensation benefits plus any supplemental unemployment compensation (usually private) payable to the individual, and is consistent with the State definition of "suitable" work in other respects.

States must refer extended benefits claimants to any job meeting these requirements. If the State, based on information provided by the individual, determines that the individual's prospects for obtaining work in his or her customary occupation within a reasonably short period are good, the determination of whether any work is "suitable work" is made in accordance with State law rather than the above.

There are certain circumstances under which Federal law provides that State and extended benefits may not be denied. A State may not deny benefits to an otherwise eligible individual for refusing to accept new work under any of the following conditions: (1) If the position offered is vacant due directly to a strike, lockout, or other labor dispute; (2) if the wages, hours, or other conditions of the work offered are substantially less favorable to the individual than in those prevailing for similar work in the locality; (3) if as a condition of being employed the individual would be required to join a company union or to resign from or refrain from joining any bona fide labor organization. Further, benefits may not be denied solely on the grounds of pregnancy. The State is prohibited from canceling wage credits or totally denying benefits except in cases of misconduct, fraud, or receipt of disqualifying income.

There are also certain conditions under which Federal law requires that benefits be denied. For example, benefits must be denied to employees of education institutions during summer (and other vacation periods) if they have a reasonable assurance of reemployment; to professional athletes between sport seasons; and to aliens not legally admitted to work in the United States.

Disqualifications

The major causes for disqualification from benefits are not being able to work or available for work, voluntary separation from work without good cause, discharge for misconduct connected with the work, refusal of suitable work without good cause, and unemployment resulting from a labor dispute. Disqualification for one of these reasons may result in a postponement of benefits for some prescribed period, a cancellation of benefit rights, or a reduction of benefits otherwise payable.

Of the 18.7 million "monetarily eligible" initial UI claims in fiscal year 1985, 18.7 percent were disqualified. This figure subdivides into 4.8 percent for not being able to work or available for work, 4.8 percent for voluntarily leaving a job without good cause, 3.0 percent for being fired for misconduct on the job, 0.2 percent for refusing suitable work, and 5.8 percent for committing other disqualifying acts. The total disqualification rate ranged from a low of 3.6 percent in Tennessee to a high of 86 percent in Nebraska with Colorado the next highest at 44.8 percent. (Note that a claimant can be disqualified for any week claimed so that it is possible for a claimant to be disqualified more times than the total number of his initial claims in his benefit year.)

Federal law requires that benefits provided under the extended benefits program and the Federal Supplemental Compensation program will be denied to an individual for the entire spell of his or her unemployment if he or she was disqualified from receiving State benefits because of voluntarily leaving employment, discharge for misconduct, or refusal of suitable work. These benefits will be denied even though the disqualification was subsequently lifted with respect to the State benefits prior to reemployment. The person could receive these benefits, however, if the disqualification is lifted because he or she became reemployed and met the work or wage requirement of State law.

Ex-service members

The Omnibus Budget Reconciliation Act of 1981 (Public Law 97-35) established new requirements for the payment of benefits to ex-service members under the unemployment compensation for ex-service members (UCX) program. Under the act, benefits were limited to individuals who (1) had 365 or more days of military service; (2) were discharged or released under honorable conditions; (3) did not resign or voluntarily leave the service (i.e., they were not eligible for reenlistment); and (4) were not released or discharged "for cause" as defined by the Department of Defense. The requirements applied to individuals who left Federal military service on or after July 1, 1981, but only for weeks of unemployment that began on or after August 13, 1981, the date of enactment of Public Law 97-35.

The Miscellaneous Revenue Act of 1982 (Public Law 97-362) modified the above eligibility requirements for ex-service members. Federal unemployment benefits are now payable to unemployed ex-service members who: (1) are separated under honorable conditions (and, in the case of officers, did not resign for the good of the service); and (2) have completed the first full term of active service they agreed to serve. Ex-service members who are separated prior to completing their first full term of active service can qualify for unemployment compensation benefits if they are separated under honorable conditions: (a) for the convenience of the Government under an early release program; (b) because of medical disqualification, pregnancy, parenthood, or any service-incurred injury or disability; (c) because of hardship; or (d) if they have served for 365 continuous days, because of personality disorder or inaptitude. In addition to these eligibility requirements, ex-service members must wait 4 weeks from the date of their separation from the service before they may receive benefits. The maximum number of weeks of benefits an ex-service member may receive based on his employment in the military is 13. These eligibility provisions are effective for separations from the service on or after July 1, 1981, but only for weeks of unemployment beginning on or after October 25, 1982.

Pension offset

The Unemployment Compensation Amendments of 1976 (Public Law 94-566) required all States to reduce an individual's unemployment compensation benefits by the amount of any governmental or private pension or retirement pay received by the individual. Public Law 96-364 modified this offset requirement.

Under current law, States are required to make the offset only in those cases in which the work-related pension was maintained or contributed to by a "base period" or "chargeable" employer. Entitlement to, and the amount and duration of, unemployment benefits are based on work performed during this State-specified base period. A "chargeable" employer is one whose account will be charged for unemployment compensation received by the individual.

States are allowed to reduce the amount of the offset by an amount consistent with any contribution the employee made toward the pension. For example, this allows States to limit the offset to one-half of the amount of a social security pension received by an individual who qualifies for unemployment benefits.

Taxation of unemployment insurance benefits

The amount of unemployment insurance benefits subject to Federal tax is, generally, an amount equal to the lower of the amount of unemployment compensation or one-half the excess of adjusted gross income, unemployment insurance payments, and excludable disability income over $12,000 for single taxpayers, over $18,000 for married taxpayers filing jointly, and over zero for married taxpayers filing separately. The threshold under prior law was $20,000 for single taxpayers and $25,000 for married taxpayers filing jointly.

The following is an example of how to compute the amount of unemployment compensation subject to Federal income tax for a husband and wife filing jointly:

Adjusted gross income	$17,000
Unemployment compensation	2,000
Excludable disability income	0

In determining the amount of unemployment compensation subject to Federal income tax, the taxpayer first adds adjusted gross income ($17,000) plus unemployment compensation ($2,000) plus excludable disability income ($0). This equals $19,000 in this example.

The amount of unemployment compensation subject to Federal income tax is the lesser of:

(1) the total amount of unemployment compensation ($2,000 in this example); or

(2) one-half the excess of adjusted gross income, unemployment compensation, and excludable disability income over $18,000. The excess is $1,000 in this example ($19,000 minus $18,000). One-half the excess equals $500.

The amount of unemployment compensation subject to Federal income tax for this taxpayer is $500. This amount would be added to their adjusted gross income, giving them a total adjusted gross income of $17,500.

Amount and duration of weekly benefits

In general, the States set weekly benefit amounts as a fraction of the individual's average weekly wage up to some State-determined maximum. The total maximum duration available under current law is 39 weeks. The permanent, regular State programs usually provide up to 26 weeks. (Only Puerto Rico provides fewer weeks, providing a maximum of 20 weeks of benefits.) The permanent Federal-State extended benefits program had provided up to 13 additional weeks in States where unemployment rates are relatively high. The temporary Federal supplemental compensation (FSC) program had provided up to 8 to 14 additional weeks in all States, depending on insured unemployment rates in each State. The FSC program expired on March 31, 1985.

The State-determined weekly benefit amounts generally replace between 50 and 70 percent of the individual's average weekly pretax wage up to some State-determined maximum. The average weekly wage is often calculated only from the calendar quarter in the base year in which the claimant's wages were highest. The State-determined maximum weekly benefit amounts generally vary between 50 and 70 percent of the average weekly covered wage in each State. Individual wage replacement rates tend to vary inversely with the claimant's average weekly pretax wage with high wage earners receiving lower wage replacement rates. Partly as a result, the national average weekly benefit amount as a percent of the average weekly covered wage was only 35 percent in fiscal year 1985.

Table 6 shows the minimum and maximum weekly benefit amounts and potential duration for each State program. In fiscal year 1985, the national average weekly benefit amount was $124 and the average duration was 13.0 weeks, making the average total benefits $1,612. The minimum weekly benefit amounts for 1986 vary from $5 in Hawaii to $62 in Alaska. The maximum weekly benefit amounts range from $90 in Indiana to $310 in Massachusetts. Most States vary the duration of benefits with the amount of earnings the claimant has in his base year. Ten States provide the same duration, however, for all claimants. The minimum durations range from 1 week in Wisconsin to 26 weeks in 8 States. The maximum duration is 26 weeks in 50 States. Only Puerto Rico has a maximum duration of fewer than 26 weeks at 20 weeks and 2 States have maximum durations higher than 26 weeks up to 30 weeks in Massachusetts and Washington.

Since the beginning of 1985, 13 States increased their minimum weekly benefit amounts and 2 States reduced their minimum amounts. Thirty-two States raised their maximum weekly benefit amounts. Also, three States lowered their minimum potential duration and one State increased it. One State lowered its maximum duration and no State raised its maximum duration.

TABLE 6.—AMOUNT AND DURATION OF WEEKLY BENEFITS FOR TOTAL UNEMPLOYMENT UNDER THE REGULAR STATE PROGRAMS

State	1986 weekly benefit amount[1]		1985 average weekly benefit	1986 potential duration (weeks)		1985 average duration (weeks)
	Minimum	Maximum		Minimum	Maximum	
Alabama	$22	$120	$97	11	26	11
Alaska	38–62	188–260	153	16	26	15
Arizona	40	125	104	12	26	12
Arkansas	42	189	106	10	26	11
California	30	166	111	12	26	15
Colorado	25	213	146	7	26	11
Connecticut	15–22	192–242	142	26	26	10
Delaware	20	195	112	18	26	11
District of Columbia	26	250	145	17	26	18
Florida	10	175	109	10	26	11
Georgia	27	135	104	4	26	9
Hawaii	5	200	142	26	26	14
Idaho	45	179	126	10	26	13
Illinois	51	161–209	137	26	26	17
Indiana	40	90–151	92	9	26	12
Iowa	23–28	158–194	130	11	26	13
Kansas	47	190	137	10	26	12
Kentucky	22	140	103	15	26	14
Louisiana	10	205	151	12	26	17
Maine	25–37	146–219	115	7	26	17
Maryland	25–28	175	129	26	26	12
Massachusetts	14–21	207–310	138	9	30	14
Michigan	54	197	141	15	26	11

TABLE 6.—AMOUNT AND DURATION OF WEEKLY BENEFITS FOR TOTAL UNEMPLOYMENT UNDER THE REGULAR STATE PROGRAMS—Continued

State	1986 weekly benefit amount[1]		1985 average weekly benefit	1986 potential duration (weeks)		1985 average duration (weeks)
	Minimum	Maximum		Minimum	Maximum	
Minnesota	56	228	152	11	26	14
Mississippi	30	115	91	13	26	12
Missouri	14	125	98	10	26	12
Montana	43	171	125	8	26	13
Nebraska	12	126	106	17	26	12
Nevada	16	166	129	12	26	13
New Hampshire	36	150	105	26	26	6
New Jersey	20	214	134	15	26	16
New Mexico	30	154	113	19	26	16
New York	40	180	128	26	26	17
North Carolina	15	175	109	13	26	8
North Dakota	60	194	141	12	26	14
Ohio	10	147–233	145	20	26	14
Oklahoma	16	197	140	20	26	14
Oregon	49	211	133	7	26	14
Pennsylvania	35–40	232–240	145	16	26	15
Puerto Rico	7	95	69	20	20	NA
Rhode Island	36–41	183–228	121	12	26	13
South Carolina	21	125	99	14	26	10
South Dakota	28	129	105	18	26	10
Tennessee	30	120	89	12	26	11
Texas	29	189	145	13	26	13
Utah	13	193	145	10	26	15
Vermont	18	146	116	26	26	13
Virginia	58	159	118	12	26	8
Virgin Islands	30	136	119	14	26	22
Washington	52	190	138	16	30	16
West Virginia	24	225	135	26	26	15
Wisconsin	37	196	140	1	26	12
Wyoming	36	192	147	12	26	12

[1] A range of amounts is shown for those States which provide dependents allowances.

NA: Not available.

Source: U.S. Department of Labor.

EXTENDED BENEFITS

The extended benefits program provides one-half of a claimant's total State benefits up to 13 weeks in States with an activated program for a combined maximum of 39 weeks of regular and extended benefits. Weekly benefit amounts are identical to the State benefits for each claimant. The program activates in a State under two conditions: (1) if the State's 13-week average insured unemployment rate (IUR) in the most recent weeks is at least 120 percent of the average of its 13-week IUR's in the last 2 years for the same 13-week calendar period and its current 13-week average IUR is at least 5.0 percent; or (2) at State option, if its current 13-week average IUR is at least 6.0 percent. Only 13 State programs have not adopted the second, optional condition. The 13-week average IUR is the ratio of the average number of insured unemployed persons under the regular State programs in the last 13 weeks to the average covered employment in the first 4 of the last 6 completed calendar quarters. Table 7 shows the 13-week IUR's by State for the first week in January 1982, 1983, 1984, 1985, and 1986. As indicated in the last column, there was one State (Alaska) and Puerto Rico with an activated EB program in the first week of January 1986.

TABLE 7.—STATE EXTENDED BENEFIT INDICATORS FOR THE FIRST WEEK IN JANUARY 1982, 1983, 1984, 1985, AND 1986, AND EB BENEFIT WEEKS FOR JANUARY 1985

	13-week insured unemployment rate					Percent of prior 2 years	EB weeks
	1982	1983	1984	1985	1986		
Alabama	4.31	6.00	3.79	3.69	3.16	84	0
Alaska	6.85	6.89	6.10	6.18	6.81	110	13
Arizona	2.49	4.36	2.19	1.54	1.61	86	0
Arkansas	4.84	6.08	3.75	3.93	3.82	99	0
California	3.84	5.32	3.86	3.36	3.49	96	0
Colorado	2.05	3.45	2.60	1.91	2.12	99	0
Connecticut	2.55	3.42	2.06	1.54	1.61	89	0
Delaware	3.41	3.17	2.01	1.49	1.26	72	0
Dist. of Columbia	2.03	3.82	2.55	2.09	1.99	85	0
Florida	1.79	2.58	1.48	1.32	1.35	96	0
Georgia	2.97	3.46	1.91	1.84	1.65	88	0
Hawaii	3.29	3.58	3.13	3.26	2.21	69	0
Idaho	5.83	6.81	4.64	3.92	4.27	99	0
Illinois	4.09	5.84	3.61	2.94	2.94	89	0
Indiana	3.75	5.18	2.63	2.46	2.08	81	0
Iowa	3.10	4.25	2.63	2.74	2.91	108	0
Kansas	2.41	4.26	2.47	2.21	2.49	106	0
Kentucky	4.63	5.92	3.59	3.12	3.19	95	0
Louisiana	2.79	5.36	4.72	3.89	4.42	108	0
Maine	4.00	4.42	3.78	3.41	2.95	82	0
Maryland	3.40	4.26	2.69	2.10	2.09	87	0
Massachusetts	3.45	3.93	2.48	2.14	2.28	105	0
Michigan	6.18	7.43	3.39	3.37	2.90	85	0
Minnesota	2.87	4.05	2.56	2.29	2.61	107	0
Mississippi	4.31	6.19	3.63	3.69	3.27	89	0
Missouri	3.76	4.32	2.84	2.36	2.33	89	0
Montana	4.13	4.89	4.26	3.86	3.73	91	0

TABLE 7.—STATE EXTENDED BENEFIT INDICATORS FOR THE FIRST WEEK IN JANUARY 1982, 1983, 1984, 1985, AND 1986, AND EB BENEFIT WEEKS FOR JANUARY 1985—Continued

	13-week insured unemployment rate					Percent of prior 2 years	EB weeks
	1982	1983	1984	1985	1986		
Nebraska	2.06	1.77	2.20	1.84	2.39	118	0
Nevada	3.66	4.92	3.27	2.81	2.88	94	0
New Hampshire	2.06	2.87	1.45	1.06	0.86	68	0
New Jersey	4.15	4.24	3.11	2.79	2.53	90	0
New Mexico	2.57	4.07	3.22	2.75	2.64	88	0
New York	3.34	3.85	3.08	2.70	2.52	87	0
North Carolina	3.69	4.58	2.21	2.48	2.02	86	0
North Dakota	2.15	3.20	2.67	2.65	2.84	106	0
Ohio	4.79	6.06	3.21	3.06	2.95	94	0
Oklahoma	1.44	4.06	2.09	2.14	2.30	111	0
Oregon	6.55	6.63	4.81	4.31	4.51	98	0
Pennsylvania	4.78	7.30	4.73	4.04	3.80	86	0
Puerto Rico	8.67	8.96	6.63	6.53	6.69	101	10
Rhode Island	4.85	5.24	3.53	3.17	2.99	89	0
South Carolina	4.38	5.63	2.58	2.98	2.59	91	0
South Dakota	2.00	2.08	1.10	1.23	1.54	147	0
Tennessee	4.39	4.53	2.79	2.76	2.61	96	0
Texas	0.99	2.85	1.88	1.50	1.72	177	0
Utah	3.03	4.83	2.75	2.54	2.27	85	0
Vermont	3.80	4.99	3.38	2.86	2.66	85	0
Virgin Islands	1.87	4.18	1.23	1.26	2.70	72	0
Virginia	3.48	2.30	3.67	3.71	1.06	84	0
Washington	5.53	6.60	5.03	4.41	4.30	91	0
West Virginia	4.72	8.59	5.55	5.66	4.19	74	0
Wisconsin	4.91	5.74	3.93	3.34	3.34	92	0
Wyoming	1.79	4.54	3.10	1.68	2.48	104	0
U.S. average	3.90	5.23	3.26	2.93		NA	NA

NA—Not available.

Source: U.S. Department of Labor.

FEDERAL SUPPLEMENTAL COMPENSATION

The Tax Equity and Fiscal Responsibility Act of 1982 (Public Law 97-248) established the Federal supplemental compensation program (FSC) which provided additional weeks of unemployment compensation to individuals who had exhausted their regular State benefits and any extended benefits to which they were entitled. Weekly benefit amounts were identical to regular State program benefits for each claimant. As originally enacted, the FSC program provided 10, 8, or 6 additional weeks of benefits. The Surface

Transportation Assistance Act of 1982 (Public Law 97-424) increased the maximum number of weeks of FSC benefits to 16, 14, 12, 10, or 8, depending on the State where the individual qualified for the benefits between September 12, 1982 and March 31, 1983. The program was extended from March 31, 1983, through September 30, 1983, by the Social Security Amendments of 1983 (Public Law 98-21) and provided 8 to 14 weeks of benefits during this period. Public Law 98-118 extended the program for 3 weeks from September 30, 1983, through the week of October 16, 1983.

The Federal Supplemental Compensation Amendments of 1983 (Public Law 98-135) extended the FSC program from the week of October 23, 1983, through the week of March 31, 1985. Public Law 99-15 provided that individuals eligible for FSC for the week of March 31, 1985, could continue to receive the remainder of their benefits after that date. No new FSC benefits were payable after the week of March 31, 1985.

HYPOTHETICAL WEEKLY BENEFIT AMOUNTS FOR VARIOUS WORKERS IN THE REGULAR STATE PROGRAMS

The following table (table 8) illustrates the amount of benefits various full-year workers can receive in regular State programs. All of the benefit amounts are for January 1985. The first column A of the table is for a full-time worker earning the minimum wage; the second column B is for a worker earning $6 per hour, while the third column C shows benefit amounts for a worker earning $9 per hour. The final column D is a part-time worker earning the minimum wage and working 20 hours per week. The weekly benefit amount for the minimum wage worker varies from $65 to $139. The maximum amount a worker can receive in these examples (column C) in each State varies considerably, from $95 to $226 per week.

TABLE 8.—WEEKLY BENEFIT AMOUNT FOR VARIOUS FULL-YEAR WORKERS IN SELECTED STATES IN JANUARY 1985

	A	B	C	D
Alabama	73	120	120	36
Arkansas	67	120	154	33
Alaska	84	128	226	56
Arizona	70	115	115	....
California	68	105	142	38
Colorado	80	143	180	40
Connecticut	77	130	209	44
Delaware	67	120	165	33
District of Columbia	76	136	204	38
Florida	67	120	150	33
Georgia	69	124	125	34
Hawaii	70	125	188	35
Idaho	67	120	173	....
Illinois	74	122	209	37

TABLE 8.—WEEKLY BENEFIT AMOUNT FOR VARIOUS FULL-YEAR WORKERS IN SELECTED STATES IN JANUARY 1985—Continued

	A	B	C	D
Indiana	75	99	128	....
Iowa	79	141	176	39
Kansas	74	132	175	43
Kentucky	83	140	140	41
Louisiana	70	125	188	35
Maine	84	144	154	45
Maryland	73	130	175	37
Massachusetts	67	120	192	33
Michigan	76	126	188	....
Minnesota	70	120	180	....
Mississippi	67	115	115	33
Missouri	78	120	120	39
Montana	65	117	171	42
Nebraska	72	120	120	38
Nevada	69	124	162	34
New Hampshire	83	117	141	46
New Jersey	90	160	203	45
New Mexico	67	120	150	34
New York	67	120	180	....
North Carolina	67	120	167	33
North Dakota	67	120	180	....
Ohio	67	120	187	....
Oklahoma	69	124	187	34
Oregon	87	166	204	47
Pennsylvania	74	126	188	43
Puerto Rico	67	95	95	34
Rhode Island	78	137	194	42
South Carolina	67	120	125	33
South Dakota	67	120	129	33
Tennessee	112	120	120	67
Texas	70	125	188	35
Utah	68	121	180	34
Virgin Islands	70	125	130	35
Vermont	67	120	146	34
Virginia	69	124	150	....
Washington	139	185	185	69
West Virginia	73	131	198	36
Wisconsin	67	120	180	....
Wyoming	70	125	183	....

A. $3.35/hr. wage; 40 hrs./wk.; 52 wks./yr.; nonworking spouse; no children.
B. $6.00/hr. wage; 40 hrs./wk.; 52 wks./yr.; nonworking spouse; no children.
C. $9.00/hr. wage; 40 hrs./wk.; 52 wks./yr.; nonworking spouse; 2 children.
D. $3.35/hr. wage; 20 hrs./wk.; 52 wks./yr.; nonworking spouse; no children.

Source: U.S. Department of Labor.

FINANCING

The Federal unemployment tax

Total unemployment taxes on employers for a full-time, full-year worker earning at least $7,000 in 1985 is estimated to have averaged about $252 or 12 cents per hour. The Federal portion is $56 or 3 cents per hour and the average State portion is about $196 or 9 cents per hour. Employer taxes will vary substantially, however, depending on the State taxable wage base, State tax rates, and reduced Federal credits.

The Federal Unemployment Tax Act (FUTA) currently imposes a minimum, net Federal payroll tax on employers of 0.8 percent on the first $7,000 paid annually to each employee. The gross FUTA tax rate is 6.2 percent, but employers in States meeting certain Federal requirements and having no delinquent Federal loans are eligible for a 5.4 percent credit, making the minimum, net Federal tax rate 0.8 percent.

Employers in States with delinquent Federal loans may face increases in their FUTA tax rate stemming from automatic reductions in the FUTA credit. States with outstanding loans from the Federal Government must repay them fully by November 10 of the calendar year in which the second consecutive January first passes with the State still having an outstanding loan. This means that a State may have from about 22 to 34 months to repay the loan without penalty, depending on when it obtained the outstanding loan. If it does not repay fully by the appropriate November 10, it becomes subject to an annual credit reduction beginning with the preceding January 1 until the State repays the loan fully. Employers must pay the additional taxes resulting from the credit reduction no later than January 31 of the next calendar year.

The credit reduction is at least 0.3 percent per year beginning with the calendar year in which the second consecutive January first passes during which the loan is outstanding. There are two potential additional credit reductions during the ensuing calendar years in which a State has an outstanding advance: (1) in the calendar years after which the third and fourth consecutive January firsts pass, the employers in the State face a reduction by the amount that 2.7 percent exceeds the State's average tax rate on taxable wages in the calendar year to which the reduction applies; (2) in the calendar years in which the fifth through ninth consecutive January firsts pass, the employers face a reduction equal to the higher of the amount in (1) or the amount that the State's 5-year benefit cost rate exceeds the State's average tax rate on taxable wages in the calendar year to which the reduction applies. The 5-year benefit-cost rate is one-fifth of the UC benefits paid in the first 5 of the last 6 completed calendar years preceding the calendar year to which the credit reduction applies divided by taxable wages in the last calendar year.

The Omnibus Budget Reconciliation Act of 1981 modified FUTA provisions regarding Federal unemployment loans to the States. States are now charged interest on new loans that are not repaid by the end of the fiscal year in which they are obtained. Under previous law, States could receive these loans interest-free. The interest rate is the same rate as that paid by the Federal Government on State reserves in the Federal Unemployment Trust Fund for the quarter ending December 31 of the preceding year, but not higher than 10 percent per annum. A State may not pay the interest directly or indirectly from funds in their State accounts in the Federal Unemployment Trust Fund.

Employers in 12 States were subjected to a reduction in FUTA offset credit for taxable year 1985. The States were:

Connecticut
Illinois
Louisiana
Michigan
Minnesota
Ohio
Pennsylvania
Puerto Rico
Vermont
Virgin Islands
West Virginia
Wisconsin

The Omnibus Budget Reconciliation Act of 1981 (Public Law 97-35) added a new subsection (f) to section 3302 of FUTA which under certain conditions fully limits the FUTA tax credit reduction to an amount which does not exceed the greater of 0.6 percent of wages subject to FUTA or the percentage reduction that was in effect for the preceding taxable year.

To qualify for a full cap in taxable year 1985, a State must have taken no action in the 12 months ending September 30, 1985, unless required under State law in effect before August 13, 1981, which has resulted or will result in:

(1) A reduction in the State's unemployment tax effort;

(2) A net decrease in the solvency of the State unemployment compensation system;

and, further, that:

(3) The State unemployment tax rate for the calendar year equals or exceeds the average benefit-cost ratio for calendar years in the five-calendar-year period ending with calendar year 1984; and

(4) The outstanding balance of advances to the State on September 30 of calendar year 1983 was not greater than the outstanding balance for such State on September 30, 1982.

Under these criteria three States qualified for the full cap and were subject to reduced FUTA credits for 1985 as follows:

	Percent
Connecticut	0.7
Puerto Rico	.6
Vermont	.6

Section 512(a) of the Social Security Amendments of 1983 (P.L. 98-21) added a new paragraph (8) to section 3302(f) of FUTA which under certain conditions partially limits the FUTA tax credit reduction.

(5) If a State meets the requirements of (1) and (2), and (3) or (4), above, the reduction in credits otherwise applicable to employers in the State for 1985 is reduced by 0.1 percentage

point, but not below the higher of 0.6 percent and the rate for the prior year.

(6) If a State meets the requirements of (1) and (2) above, and also meets the requirements of section 1202(b)(8)(B) of the Social Security Act, the reduction in credits otherwise applicable to employers in the State for 1985 is reduced by 0.2 percentage points, but not below the higher of 0.6 percent and the rate for the prior year.

Under these criteria four States qualified for a partial cap and were subject to reduced FUTA credits for 1985 as follows:

	Percent
Illinois	0.9
Ohio	.8
Pennsylvania	.9
West Virginia	.8

Three States were not affected by the full or partial cap and were subject to reduced FUTA credits for 1985 as follows:

	Percent
Louisiana	0.6
Minnesota	1.1
Virgin Islands	1.2

Section 272 of the Tax Equity and Fiscal Responsibility Act of 1982 (P.L. 97-248) amended Section 3302 of the Internal Revenue Code of 1954 by adding subsection (g) which gives a State the option of repaying on or before November 9 a portion of its outstanding loans each year through transfer of a specified amount from its account in the Unemployment Trust Fund (UTF) to the Federal Unemployment Account (FUA) in the UTF. The transfer to FUA would be in lieu of a reduced credit in the Federal tax paid by the employers in the State. The State must meet the following criteria in order to avoid the offset credit reduction:

(7) repay all loans for the one-year period ending on November 9, plus the additional tax due by reason of the reduced credit applicable to tax year 1985,

(8) have or will have sufficient funds remaining after the transfer to pay benefits for at least three months from November 1 of the same year without receiving another title XII advance; and

(9) have taken action by amendment of the State law, after the date of the first advance taken into account, to increase the net solvency of its UI system, and such net increase equals or exceeds the potential additional taxes for such taxable year.

Under these criteria two States qualify and are thus not subject to reduced FUTA credits for 1985 as follows:

Michigan
Wisconsin

Interest due on State loans from the Federal Unemployment Account can be deferred or reduced if the State meets certain requirements. These interest relief options available to the States are:

(1) High unemployment deferral.—Section 1202(b)(3)(C) of the Social Security Act (SSA) allows a State to defer 75 percent of interest otherwise due if the rate of insured unemployment under the State law for the period consisting of the first 6 months of the preceding calendar year equaled or exceeded 7.5 percent. The State must pay 75 percent of interest otherwise due in three annual installments of at least 25 percent beginning with the year after the year in which it was due. The interest deferred does not accrue interest.

(2) Legislative action deferral.—Section 1202(b)(8) of the SSA allows a State to defer 80 percent of interest otherwise due if the State has taken no action since October 1, 1982, to reduce the State's tax effort or unemployment fund solvency and has taken action after March 31, 1982, which increases revenues to the State's unemployment fund and decreases benefits by at least 25 percent in the calendar year for which the first deferral is requested; deferrals for the second and third years immediately following the year in which the first year change is effective are available if the State produces a solvency effort of at least 35 and 50 percent, respectively. The State must pay 80 percent of interest otherwise due in four annual installments of at least 20 percent beginning with the year after the year in which it was due. Interest does not accrue on deferred interest. This type of deferral was only available for 1983, 1984, and 1985. Once a deferral is approved, a State must continue to maintain its solvency effort. Failure to do so will result in the State being required to make immediate payment of all deferred interest.

(3) Average tax rate deferral.—Section 1202(b)(8) of the SSA allows a State to defer 80 percent of interest otherwise due if the State has taken no action since October 1, 1982, to reduce the State's tax effort or unemployment fund solvency, and for taxable year 1982, total State unemployment compensation revenues to the unemployment fund equal at least 2 percent of total wages paid by employers covered under the State unemployment compensation law. The State must pay 80 percent of interest otherwise due in four annual installments of at least 20 percent beginning with the year after the year in which it was due. Interest does not accrue on deferred interest. This type of deferral is available for 1983, 1984, and 1985 only.

(4) High unemployment delay of payment due.—Section 1202(b)(9) of the SSA allows a State to delay up to 9 months the payment of interest due September 30 of any calendar year after 1982 during which the average total unemployment rate (TUR) in the State was 13.5 percent or higher for the most recent 12-month period for which data are available.

(5) Discounted interest rate.—Section 1202(b)(8)(D) of the SSA allows a State to receive a discounted interest rate that would be one percentage point below the interest rate that would otherwise apply. The discounted rate for interest due prior to October 1, 1983, would be 9.0 percent. This discounted interest

rate is available to a State which has taken on action since October 1, 1982, to reduce the State's tax effort or unemployment fund solvency and has taken action since March 31, 1982, which produces a solvency effort of at least 50, 80, and 90 percent rather than 25, 35, and 50 percent, respectively, as specified under the legislative action deferral. A discounted interest rate is available for 1983, 1984, and 1985 payments.

For interest payments due in 1985, the following States met the criteria specified by law to qualify for the relief shown.

State	Option
Illinois	Legislative action deferral.
Michigan	Legislative action deferral. Discounted rate.
Montana	Discounted rate.
Ohio	Legislative action deferral.
Pennsylvania	Legislative action deferral.
West Virginia	Average tax rate deferral. High unemployment delay.
Wisconsin	Legislative action deferral. Discounted rate.

As of December 31, 1985, outstanding unemployment loans totaled $6.1 billion. Table 9 shows the loans made to each State. Interest-bearing loans in 16 States were $1.6 billion.

TABLE 9.—LOANS TO STATES FROM THE FEDERAL UNEMPLOYMENT ACCOUNT (FUA), AS OF DECEMBER 31, 1985

[In millions of dollars, calendar year]

	Date of first loan	Interest free loans	Interest bearing loans	Total title XII loans
Connecticut	March 1972	$102		$102
Illinois	December 1975	1,124		1,124
Louisiana	November 1983		$577	577
Michigan	April 1975	1,289		1,289
Minnesota	July 1975	44	42	86
Ohio	March 1977	648	328	976
Pennsylvania	October 1975	1,117	222	1,339
Puerto Rico	April 1975	19		19
Virgin Islands	February 1975		3	3
West Virginia	September 1980	59	197	256
Wisconsin	February 1982	127	201	328
Total		4,528	1,570	6,099

Source: U.S. Department of Labor, Unemployment Insurance Service, Division of State Program Management, Tax Administration Group.

Note.—Total does not include unpaid interest.

The State unemployment taxes

The States finance their programs with employer payroll taxes imposed on at least the first $7,000 paid annually to each employee.[1] States generally adopt a taxable wage base at least as high as the Federal level because they would otherwise lose the 5.4 percent credit on the difference between the Federal taxable wage base and State taxable wage base. Table 10 shows that as of January 1986, 35 States had taxable wage bases higher than the Federal taxable wage base, ranging up to $21,600 in Alaska.

Although the standard State tax rate is 5.4 percent, State tax rates based on unemployment experience can range from zero on some employers in 13 States up to a maximum as high as 10.5 percent in South Dakota.

Estimated national average State tax rates on taxable wages and total wages for 1985 were 3.1 and 1.3 percent, respectively. Estimated average State tax rates on taxable wages ranged 1.3 percent in Florida to 5.9 percent in Michigan. Estimated average State tax rates on total wages varied from 0.6 percent in four States to 3.1 percent in Puerto Rico.

Since the beginning of 1985, 21 States increased their taxable wage bases and 2 States reduced their bases. Eighteen States had increases in their estimated 1985 average tax rates on taxable wages and 26 States had decreases. Also, 17 States had increases in their estimated 1985 average tax rate on total wages and 22 States had decreases.

TABLE 10.—STATE UNEMPLOYMENT TAX BASES AND RATES

State	1986 tax base	1986 experience rates[1]		Estimated 1985 average tax rates as a percent of—		1985 Federal credit (percent)
		Minimum	Maximum	Taxable wages	All wages	
U.S. average	([2])	NA	NA	3.1	1.3	NA
Alabama	$8,000	0.5	5.4	2.5	1.3	([4])
Alaska	21,600	1.0	6.5	2.2	1.4	([4])
Arizona	([2])	0.1	5.4	1.8	0.6	([4])
Arkansas	7,500	0	6.0	2.7	1.4	([4])
California	([2])	0.3	5.4	3.2	1.2	([4])
Colorado	8,000	0	5.4	2.8	1.2	([4])
Connecticut	7,100	0.5	6.4	2.7	1.0	4.7
Delaware	8,250	0.1	8.0	3.5	1.2	([4])
District of Columbia	8,000	0.8	5.4	3.0	1.0	([4])
Florida	([2])	0.1	5.4	1.3	0.6	([4])

---

[1] Alabama, Alaska, New Jersey, and Pennsylvania also tax employees.

TABLE 10.—STATE UNEMPLOYMENT TAX BASES AND RATES—Continued

State	1986 tax base	1986 experience rates[1]		Estimated 1985 average tax rates as a percent of—		1985 Federal credit (percent)
		Minimum	Maximum	Taxable wages	All wages	
Georgia	7,500	0.01	5.71	1.7	0.8	(4)
Hawaii	15,600	0	5.4	1.6	1.1	(4)
Idaho	15,600	0.1	6.8	3.0	2.0	(4)
Illinois	8,500	0.2	6.7	4.4	1.8	4.5
Indiana	(2)	0.02	5.4	2.5	1.0	(4)
Iowa	12,000	0	7.0	3.4	1.8	(4)
Kansas	8,000	.025	5.4	2.7	1.3	(4)
Kentucky	8,000	0.30	10.0	3.6	1.7	(4)
Louisiana	(2)	0.3	6.0	4.1	1.7	4.8
Maine	(2)	0.5	6.5	3.2	1.5	(4)
Maryland	(2)	0.1	6.0	3.3	1.0	(4)
Massachusetts	(2)	1.2	7.2	2.1	0.9	(4)
Michigan	9,500	0	9.0	5.9	2.3	(4)
Minnesota	10,700	0.1	7.5	2.6	1.2	4.3
Mississippi	(2)	0.1	6.4	3.0	1.4	(4)
Missouri	8,000	0	7.8	2.5	0.9	(4)
Montana	12,200	0	6.4	3.3	2.0	(4)
Nebraska	(2)	0.1	5.4	1.9	0.9	(4)
Nevada	11,400	0.3	5.4	2.3	1.3	(4)
New Hampshire	(2)	0.01	6.5	1.4	0.6	(4)
New Jersey	10,700	0.4	6.2	3.4	1.5	(4)
New Mexico	10,300	0.1	5.4	2.1	1.2	(4)
New York	(2)	0	6.4	3.3	1.1	(4)
North Carolina	9,200	0.1	5.7	2.7	1.4	(4)
North Dakota	10,800	0.5	5.0	3.4	1.9	(4)
Ohio	8,000	0	5.9	4.2	1.4	4.6
Oklahoma	8,900	0.1	6.2	2.3	1.0	(4)
Oregon	14,000	0.9	5.4	3.1	1.9	(4)
Pennsylvania	8,000	0.3	9.2	5.3	2.2	4.5
Puerto Rico	(2)	(3)	(3)	5.4	3.1	4.8
Rhode Island	11,000	0.8	8.4	4.1	2.3	(4)
South Carolina	(2)	0.25	5.4	2.1	1.0	(4)
South Dakota	(2)	0.1	10.5	1.4	0.7	(4)
Tennessee	(2)	0.15	10.0	2.4	1.0	(4)
Texas	(2)	0	6.0	1.5	0.6	(4)
Utah	12,600	2.25	8.0	2.5	1.6	(4)

TABLE 10.—STATE UNEMPLOYMENT TAX BASES AND RATES—Continued

State	1986 tax base	1986 experience rates[1]		Estimated 1985 average tax rates as a percent of—		1985 Federal credit (percent)
		Minimum	Maximum	Taxable wages	All wages	
Vermont	8,000	0.4	8.4	4.4	2.1	4.8
Virginia	([2])	0.1	6.2	1.8	0.7	([4])
Virgin Islands	14,000	0.1	9.0	3.9	3.1	4.2
Washington	11,500	0.48	5.4	4.1	2.0	([4])
West Virginia	8,000	0	7.5	4.6	2.0	4.6
Wisconsin	10,500	0	6.7	4.6	2.5	([4])
Wyoming	9,900	0	8.5	3.7	1.8	([4])

[1] Actual rates could be higher if State has an additional tax.

[2] The 1986 tax base is $7,000 except as otherwise shown in this column.

[3] Puerto Rico is not experience rated. The rate in Puerto Rico 5.4% of $7,000.

[4] All figures are 2.7 percent except as otherwise shown in this column. To the extent that this credit is lower than 2.7 percent, these additional taxes were due January 31, 1985.

Note.—This table shows the State unemployment tax levels. It does not include the Federal unemployment taxes.

Source: Department of Labor (based on estimates by State agencies).

Table 11 shows recent data on unemployment compensation covered employment, wages, taxable wages, the ratio of taxable to total wages, and average weekly wages. The ratio of taxable wages to total wages in the States varied from 0.27 in New York to 0.69 in Puerto Rico.

TABLE 11.—12-MONTH AVERAGE EMPLOYMENT AND WAGES COVERED BY UNEMPLOYMENT INSURANCE (UI) FOR PERIOD ENDING JUNE 1985

State	Average employment (thousands)	Total wages[1] (millions)	Taxable wages (millions)	Ratio of taxable wages to total wages	Average weekly wages covered
United States	92,895	1,714,054	609,865	0.36	355
Alabama	1,310	21,130	8,442	0.40	310
Alaska	206	5,914	3,019	0.51	553
Arizona	1,189	20,795	7,461	0.36	336
Arkansas	752	11,297	4,742	0.42	289
California	10,752	218,173	68,348	0.31	390
Colorado	1,350	25,515	9,644	0.38	364
Connecticut	1,511	30,993	9,445	0.30	395
Delaware	278	5,208	1,749	0.34	360
District of Columbia	390	8,887	2,506	0.28	438
Florida	4,222	68,604	26,391	0.38	312
Georgia	2,376	40,639	14,812	0.36	329

TABLE 11.—12-MONTH AVERAGE EMPLOYMENT AND WAGES COVERED BY UNEMPLOYMENT INSURANCE (UI) FOR PERIOD ENDING JUNE 1985—Continued

State	Average employment (thousands)	Total wages [1] (millions)	Taxable wages (millions)	Ratio of taxable wages to total wages	Average weekly wages covered
Hawaii	393	6,359	3,540	0.56	311
Idaho	320	4,953	2,739	0.55	298
Illinois	4,528	90,390	30,730	0.34	384
Indiana	2,036	36,564	12,199	0.33	345
Iowa	1,016	15,981	7,155	0.45	302
Kansas	916	15,386	7,220	0.47	323
Kentucky	1,143	18,921	7,237	0.38	318
Louisiana	1,529	27,300	9,025	0.33	343
Maine	425	6,359	2,408	0.38	288
Maryland	1,691	30,343	9,733	0.32	345
Massachusetts	2,781	52,384	18,307	0.35	362
Michigan	3,288	70,627	23,549	0.33	413
Minnesota	1,763	32,142	12,552	0.39	351
Mississippi	781	11,159	4,512	0.40	275
Missouri	1,945	34,463	11,955	0.35	341
Montana	257	3,944	2,477	0.63	296
Nebraska	611	9,247	3,204	0.35	291
Nevada	425	7,466	3,895	0.52	339
New Hampshire	439	7,124	2,694	0.38	312
New Jersey	3,226	65,196	25,623	0.39	389
New Mexico	463	7,561	3,299	0.44	314
New York	7,409	156,921	43,144	0.27	407
North Carolina	2,528	39,533	17,231	0.44	301
North Dakota	224	3,406	1,445	0.42	293
Ohio	4,113	77,987	26,342	0.34	365
Oklahoma	1,100	19,362	6,571	0.34	339
Oregon	965	16,362	8,370	0.51	334
Pennsylvania	4,440	80,181	27,620	0.34	347
Puerto Rico	721	7,467	5,152	0.69	199
Rhode Island	410	6,660	2,968	0.45	313
South Carolina	1,215	18,642	7,164	0.38	295
South Dakota	224	3,000	1,130	0.38	257
Tennessee	1,745	28,343	10,551	0.37	312
Texas	6,338	120,728	41,475	0.34	366
Utah	547	9,266	4,594	0.50	326
Vermont	208	3,211	1,298	0.40	297
Virginia	2,168	36,719	13,155	0.36	326
Virgin Island	37	528	206	0.39	277

TABLE 11.—12-MONTH AVERAGE EMPLOYMENT AND WAGES COVERED BY UNEMPLOYMENT INSURANCE (UI) FOR PERIOD ENDING JUNE 1985—Continued

State	Average employment (thousands)	Total wages [1] (millions)	Taxable wages (millions)	Ratio of taxable wages to total wages	Average weekly wages covered
Washington	1.570	28,773	13,263	0.46	352
West Virginia	553	9,708	3,385	0.35	337
Wisconsin	1,883	32,325	12,814	0.40	330
Wyoming	191	3,504	1,376	0.39	352

[1] Total wages exceed taxable wages because wages from reimbursable employers are included in the former and because wage base is limited.

Source: U.S. Department of Labor, Employment and Training Administration, Unemployment Insurance Service.

ADMINISTRATION'S FISCAL YEAR 1987 FINANCIAL PROJECTIONS

Federal loans to State unemployment compensation programs

In its fiscal year 1987 budget, the administration projected total outstanding loans to State UC programs at $6.32 and $4.53 billion at the end of fiscal years 1986 and 1987, respectively. It also projected new loans in these years at $2.1 and $0.6 billion, respectively. Table 12 provides a breakdown of the projected new Federal loans and the loan balances in the States obtaining new loans for fiscal years 1986 and 1987. Illinois, Louisiana, Pennsylvania, and Texas account for 70 percent of the projected new loans in fiscal year 1986.

TABLE 12.—PROJECTED NEW FEDERAL LOANS TO STATE UNEMPLOYMENT COMPENSATION PROGRAMS IN FISCAL YEARS 1986 AND 1987

[In millions of dollars]

State	Outstanding loans (as of Dec. 31, 1985)	Fiscal year 1986		Fiscal year 1987	
		Loans	Balance	Loans	Balance
Connecticut	102		38		
Illinois	1,124	300	880		540
Louisiana	577	400	570	300	560
Michigan	1,289		1,290		1,060
Minnesota	86	190			
Montana		5			
North Dakota		30	1	30	2
Ohio	976	250	460	80	150
Pennsylvania	1,339	500	910	25	600
Puerto Rico	19				
Texas	14	250			
Vermont	12				
Virgin Islands	3				

TABLE 12.—PROJECTED NEW FEDERAL LOANS TO STATE UNEMPLOYMENT COMPENSATION PROGRAMS IN FISCAL YEARS 1986 AND 1987—Continued

[In millions of dollars]

State	Outstanding loans (as of Dec. 31, 1985)	Fiscal year 1986		Fiscal year 1987	
		Loans	Balance	Loans	Balance
West Virginia	256	140	250	110	240
Wisconsin	328		130		60
Total	6,125	2,065	4,530	580	3,220

Note.—State projections have more variability than U.S. total projections and should be used with caution. Balance is for the end of the fiscal year.

Source: U.S. Department of Labor, Employment and Training Administration, Unemployment Insurance Service, Division of Actuarial Services. Based on administration's fiscal year 1987 budget.

Interest charges

Table 13 classifies the projected interest charges on Federal loans to insolvent State UC programs at the end of fiscal years 1986 and 1987. The total projected charges are $0.18 and $0.08 billion in fiscal years 1986 and 1987, respectively.

Projected Federal unemployment tax credit reductions

Table 14 shows the State distributions of the projected additional Federal unemployment tax revenue and the credit rate reductions for fiscal year 1985. The credit rate reductions range from 0.6 percentage points in many States to 1.2 percentage points in one State for calendar year 1985.

TABLE 13.—PROJECTED INTEREST CHARGES ON FEDERAL LOANS TO INSOLVENT STATE UNEMPLOYMENT COMPENSATION PROGRAMS IN FISCAL YEARS 1986 AND 1987

Interest charges (in millions of dollars)	States	
	Fiscal year 1986	Fiscal year 1987
1–10	Minnesota	
	North Dakota	North Dakota
	Virgin Islands	
11–50	Ohio	
	Pennsylvania	
	West Virginia	West Virginia
	Wisconsin	Wisconsin
51–100	Louisiana	Louisiana

Source: U.S. Department of Labor, Employment and Training Administration, Unemployment Insurance Service, Division of Actuarial Services. Based on administration's fiscal year 1987 budget.

Table 14 shows that employers in Illinois, Minnesota, Ohio, and Pennsylvania are projected to pay 82 percent of the additional Federal unemployment taxes resulting from the projected credit reductions in 1985.

TABLE 14.—REDUCED FUTA CREDITS—FISCAL YEAR 1987 PRESIDENT'S BUDGET

State	1985 credit rate reduction	Additional Federal unemployment taxes [1] (estimated 1985 payments) (in millions)
Connecticut	0.7	$66
Illinois	.9	250
Louisiana	.6	54
Michigan [2]	0	0
Minnesota	1.1	112
Ohio	.8	196
Pennsylvania	.9	225
Puerto Rico	.6	18
Vermont	.6	7
Virgin Islands	1.2	2
West Virginia	.8	25
Total		955

[1] Payments due January 31, 1986.

[2] Michigan was not subject to reductions in FUTA tax credits because it met the repayment criteria specified in section 3302(g) of the Internal Revenue Code.

Source: U.S. Department of Labor/ETA/USI, Division of Actuarial Services.

ADMINISTRATIVE FINANCING AND ALLOCATION

State unemployment insurance administrative expenses are Federally financed. A portion of revenue from the Federal unemployment tax (FUTA) is designated for administration and to maintain a system of public employment offices.

FUTA revenue flows into three Federal accounts in the Unemployment Trust Fund: (1) the Employment Security Administration Account (ESSA), (2) the Extended Unemployment Compensation Account (EUCA), and (3) the Federal Unemployment Account (FUA). Authorized by title IX of the Social Security Act, ESSA finances administrative costs associated with Federal and State unemployment compensation and employment services.

Under current law, sixty percent of FUTA revenue is allocated to ESAA. Funds authorized for administration are limited to 95 percent of the estimated annual revenue that is expected to flow to ESAA from the Federal unemployment tax. The amount is estimated after transfer of FUTA receipts earmarked for the extended unemployment compensation account. Funds for administration may be augmented by three-eighths of the amount in ESAA at the beginning of the fiscal year, or $150 million, whichever is less, if the rate of insured unemployment is at least 15 percent higher than it was over a corresponding calendar quarter in the immediately preceding year.

Title III of the Social Security Act authorizes payment to each State, with an approved unemployment insurance law, such amounts as are deemed necessary for the proper and efficient administration of such law during the fiscal year. Allocations are based on (1) the population of the State, (2) an estimate of the number of persons covered by the State unemployment insurance law, (3) an estimate of the cost of proper and efficient administration of such law; and (4) such other factors as the Secretary of Labor finds relevant.

Subject to the limit of available resources, the allocation of State grants for administration is the summation of resources derived in three major areas, the Unemployment Insurance Service (UI), the Employment Service (ES), and Administrative Staff and Technical Services (AS&T)/Nonpersonal Services (NPS). Each area has its own allocation methodology subject to general constraints set forth in the Social Security Act.

Each year, as part of the development of the President's Budget, the Department of Labor in conjunction with the Department of Treasury, estimates revenue expected from FUTA and the appropriate amount which will be available for administration (and the Federal share of extended benefits). The estimate of FUTA revenues is based on several factors: (1) a wage base of $7,000 per employee, (2) a tax rate of 0.8 percent (0.48 percentage points for administration and 0.32 percentage points for extended benefits), (3) the administration's projection of the level of unemployment and the growth in wages, and (4) the level of covered employment subject to FUTA. Additionally, a determination is made based on the administration's forecast for unemployment as to whether the rate will increase by at least 15 percent.

Each year the President's Budget sets forth an estimate of national unemployment in terms of the volume of unemployment claims per week. This is characterized as average weekly insured unemployment (AWIU). A portion of AWIU is expressed as "base" and the remainder as "contingency." At the present time, the base is set at the level of resources required to process an average weekly volume of 2.1 million weeks of unemployment.

Resources available to each State to administer its unemployment compensation program (i.e., process claims and pay benefits) are provided from either "base" funds or "contingency" funds. At the beginning of the fiscal year, only the base funds are allocated while contingency funds are allocated on a needs basis as workload materializes. Base funds are distributed to the State for use throughout the fiscal year and are available regardless of the level of unemployment (workload) realized. If a State processes workloads in excess of the base level they receive the contingency funds determined by the extent of the resources required to process the additional workload.

The allocation of the base UI grant funds to each State is determined by:

(1) Estimating, based on the known relative share of each State to the U.S. total, what portion of the estimated workload for a given fiscal year a State may be expected to process;

(2) Determining the resources required to process the anticipated workload. These resources are derived from work measurement studies conducted in each State which establish the number of minutes required to accomplish specific tasks. The results are quantified as minutes per unit (MPU) per program function; and

(3) Obtaining the number of work hours per staff year in each State.

The anticipated UI administrative grant amounts for each State are then forecast and summed. Resources are expressed in terms of staff years. The number of staff years required in each State is the product of the estimated workload and the required processing time (i.e., MPU's) divided by the hours worked. If the number of staff years derived from this calculation exceeds the number available for allocation, the allocation is adjusted by reducing workloads and/or MPU's. The final staff year allocations for each State are then multiplied by the cost per staff year (i.e., State salary level) for a given State to determine dollar funding levels. Each Department of Labor regional office may redistribute the resources available to the States in their area.

The resources available for AS&T/NPS are also determined during the development of the President's budget. The AS&T function provides funding for the administrative staff and technical services which are part of the State's agency-wide overhead and are considered to benefit all UI and ES grant programs. Nonpersonal services include: supplies, travel, communications, premises and equipment.

The AS&T/NPS allocation process is accomplished in four areas. The first area, administration and management, provides each State with a set minimum number of positions, with additional positions above the minimum determined by the number of employment service and unemployment insurance positions allocated. Second, funding for nonpersonal services is provided by setting a minimum amount for each State and allocating additional funds based on UI and ES positions and the population density in each State. Third, for office space, the prior year actual cost per grant staff year is determined, then inflated by the national percentage increase for NPS, and finally multiplied by the projected ES and UI positions. Fourth, funding for automatic data processing (ADP) is provided based on prior year actual cost, then inflated by the national percentage increase for NPS. Adjustments are made each fiscal year to reflect changes in the mode of operation of each State agency. There is also a component in the process which provides funding for ADP staff.

In any given year a hold harmless factor which assures that no State agency receives less than 95 percent of a prior year's level may be used. A last calculation is made to make pro rata adjustments to dollars actually available.

RECENT MAJOR LEGISLATION

Major Federal laws passed by recent sessions of Congress and some of their provisions are:

(1) The Employment Security Amendments of 1970 (Public Law 91-373) expanded FUTA coverage primarily to small businesses, nonprofit organizations, and higher educational institutions. It also raised the taxable wage base from the original $3,000 to $4,200 in 1972; increased the minimum, net Federal unemployent tax rate from 0.4 to 0.5 percent in 1970; and created the Federal-State extended benefits program.

(2) The Unemployment Compensation Amendments of 1976 (Public Law 94-566), extended FUTA coverage primarily to State-local government workers and certain agricultural and domestic labor. It also raised the taxable wage base to $6,000 in 1978 and temporarily increased the minimum, net Federal unemployment tax rate from 0.5 to 0.7 percent in 1977.

(3) The Omnibus Budget Reconciliation Act of 1980 (Public Law 96-499) added among other provisions a denial of extended benefits to claimants under certain circumstances who have rejected a minimum wage job.

(4) The Omnibus Budget Reconciliation Act of 1981 (Public Law 97-35) imposed interest charges up to 10 percent per annum under certain conditions on loans obtained by State UC programs after April 1, 1982. It also cut an estimated $3 to $4 billion from the Extended Benefits program in fiscal year 1983.

(5) The Tax Equity and Fiscal Responsibility Act of 1982 (Public Law 97-248) increased the taxable wage base from $6,000 to $7,000 and raised the minimum, net Federal unemployment tax rate to 0.8 percent in 1983. It also raised the gross tax and credit rates in 1985 to 6.2 and 5.4 percent, respectively. This leaves the minimum, net Federal rate unaffected, but raises the maximum, potential, net tax rate in States with delinquent loans from 3.4 to 6.2 percent. The Act also created the temporary Federal supplemental compensation program, which authorized 6 to 10 additional weeks of benefits through March 31, 1983.

(6) The Surface Transportation Assistance Act (Public Law 97-424), passed in the lame-duck session of Congress, added 2 to 6 weeks to the Federal Supplemental Compensation program for a combined maximum in that program of 8 to 16 weeks.

(7) The Social Security Amendments of 1983 (Public Law 98-21) extended the Federal supplemental compensation program through September 30, 1983, providing a maximum of 8 to 14 weeks of benefits. It also established conditions under which States could defer the payment of interest on loans from the Federal Unemployment Account and qualify for reduced FUTA credit reductions.

(8) The Federal Supplemental Compensation Amendments of 1983 (Public Law 98-135) extended the Federal Supplemental Compensation program through March 31, 1985, providing a maximum of 8 to 14 weeks of benefits.

TABLE 15.—LEGISLATIVE CHANGES IN THE UNEMPLOYMENT COMPENSATION PROGRAM IN CALENDAR YEARS 1981, 1982, AND 1983

[In millions of dollars]

	Fiscal years					
	1982	1983	1984	1985	1986	1987
1981 (January 1982 estimates):						
Elimination of national trigger under the extended benefits program	−827	−1,273	−1,418			
Raise State triggers to 5 percent plus 120 percent or 6 percent	−0	−1,152	−448			
Claims for extended or additional compensation not included in determining rate of insured unemployment for extended benefit trigger calculation	−1,286	−1,283	−1,225			
Require 20 weeks of work or equivalent wages for extended benefits	0	−4	−3			
Limitations on unemployment benefits paid to ex-service members	−325	−376	−347			
Federal unemployment compensation loans to States	−5	−157	−350			
1982 (January 1983 estimates):						
Rounding UC benefits		−0	−22	−21	−20	−19
Extend Reed Act		0	0	0	0	0
Deferral of interest payment on UC loans		50	400	150	−250	−250
Treatment of school employees		−7	−8	−9	−10	−11
Short time compensation		1	1	0	0	0
Unemployment benefits paid to ex-service members		132	111	117	109	101
Taxation of unemployment compensation benefits		−763	−734	−611	−618	−650
Federal supplemental benefits		2,570				
1983 (January 1984 estimates):						
Federal supplemental benefits			3,500	1,200		
Deferral of interest		37	85	−137	−474	−465

Source: Congressional Budget Office.

APPENDIX F. STATISTICAL DATA ON UNEMPLOYMENT AND HISTORICAL INFORMATION ON THE UNEMPLOYMENT COMPENSATION PROGRAM

The following tables and charts provide statistical data on unemployment and historical information on the unemployment compensation program.

TABLE 1.—MONTHLY DATA FOR FOUR ECONOMIC INDICATORS SINCE 1970

Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Avg.
Civilian Unemployment Rate—Total (Seasonally Adjusted)													
1970	3.9	4.2	4.4	4.6	4.8	4.9	5.0	5.1	5.4	5.5	5.9	6.1	4.9
1971	5.9	5.9	6.0	5.9	5.9	5.9	6.0	6.1	6.0	5.8	6.0	6.0	5.9
1972	5.8	5.7	5.8	5.7	5.7	5.7	5.6	5.6	5.5	5.6	5.3	5.2	5.6
1973	4.9	5.0	4.9	5.0	4.9	4.9	4.8	4.8	4.8	4.6	4.8	4.9	4.9
1974	5.1	5.2	5.1	5.1	5.1	5.4	5.5	5.5	5.9	6.0	6.6	7.2	5.6
1975	8.1	8.1	8.6	8.8	9.0	8.8	8.6	8.4	8.4	8.4	8.3	8.2	8.5
1976	7.9	7.7	7.6	7.7	7.4	7.6	7.8	7.8	7.6	7.7	7.8	7.8	7.7
1977	7.5	7.6	7.4	7.2	7.0	7.2	6.9	6.9	7.0	6.8	6.8	6.4	7.1
1978	6.4	6.3	6.3	6.1	6.0	5.9	6.2	5.9	6.0	5.8	5.9	6.0	6.1
1979	5.9	5.9	5.8	5.8	5.6	5.7	5.7	6.0	5.9	6.0	5.9	6.0	5.8
1980	6.3	6.3	6.3	6.9	7.5	7.6	7.8	7.7	7.5	7.5	7.5	7.2	7.1
1981	7.5	7.4	7.4	7.2	7.5	7.5	7.2	7.4	7.6	7.9	8.3	8.5	7.6
1982	8.6	8.9	9.0	9.3	9.4	9.6	9.8	9.8	10.1	10.4	10.7	10.7	9.7
1983	10.4	10.4	10.3	10.2	10.2	10.1	9.4	9.4	9.2	8.8	8.4	8.2	9.6
1984	8.0	7.8	7.8	7.8	7.5	7.2	7.5	7.5	7.4	7.3	7.1	7.2	7.5
1985	7.4	7.3	7.3	7.3	7.3	7.3	7.3	7.0	7.1	7.1	7.0	6.9	7.1
1986	6.7												

BLANK PAGE

BLANK PAGE

BLANK PAGE

s

TABLE 1.—MONTHLY DATA FOR FOUR ECONOMIC INDICATORS SINCE 1970—Continued

Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Avg.
Insured Unemployment Rate Under State Programs (Seasonally Adjusted)													
1970	2.5	2.7	2.8	3.2	3.5	3.6	3.6	3.7	4.0	4.4	4.4	4.0	3.4
1971	3.9	3.9	4.0	4.1	4.1	4.1	3.9	4.2	4.3	4.2	4.1	4.0	4.1
1972	3.7	3.7	3.6	3.6	3.6	3.5	3.7	3.4	3.4	3.2	3.2	3.2	3.5
1973	2.9	2.8	2.8	2.6	2.7	2.7	2.6	2.8	2.7	2.7	2.7	2.9	2.7
1974	3.1	3.2	3.3	3.2	3.2	3.3	3.3	3.4	3.5	3.7	4.4	5.0	3.5
1975	5.6	5.8	6.4	6.7	6.9	6.8	6.1	5.9	5.8	5.6	5.3	4.9	6.0
1976	4.6	4.3	4.3	4.4	4.5	4.5	4.6	4.6	4.7	4.7	4.7	4.4	4.6
1977	4.3	4.2	4.1	4.0	3.9	3.9	3.8	3.8	3.8	3.8	3.8	3.7	3.9
1978	3.5	3.7	3.6	3.3	3.2	3.2	3.3	3.4	3.2	3.1	2.9	3.2	3.3
1979	3.1	3.2	3.1	3.0	2.8	2.8	2.8	3.0	2.9	3.0	3.1	3.2	2.9
1980	3.3	3.3	3.4	3.7	4.2	4.4	4.4	4.3	4.2	4.0	3.8	3.6	3.9
1981	3.5	3.5	3.4	3.3	3.3	3.3	3.3	3.3	3.4	3.6	3.9	4.0	3.5
1982	4.2	4.0	4.3	4.6	4.5	4.7	4.7	4.7	5.0	5.2	5.3	4.8	4.6
1983	4.5	4.7	4.5	4.4	4.2	3.9	3.7	3.5	3.4	3.3	3.3	3.2	3.9
1984	2.9	2.8	2.9	2.8	2.8	2.7	2.7	2.7	2.7	2.8	2.7	3.0	2.8
1985	2.8	3.0	3.0	2.9	2.8	2.8	2.8	2.8	2.8	2.6	2.8	2.9	2.8
1986	2.7												

TABLE 2.—STATE INSURED UNEMPLOYMENT RATES FOR CALENDAR YEARS 1980–84 AND RATES BY CALENDAR QUARTER FOR 1985 UNDER THE UNEMPLOYMENT COMPENSATION PROGRAM

[Percent]

	1980	1981	1982	1983	1984	1985			
						I	II	III	IV
Alabama	4.4	4.0	5.4	4.6	3.5	4.2	2.9	2.9	3.0
Alaska	7.7	7.0	7.1	6.7	6.2	9.0	7.3	5.4	6.6
Arizona	2.5	2.4	4.1	3.2	1.9	1.9	1.8	2.0	1.6
Arkansas	4.8	4.2	5.6	4.6	3.5	5.0	3.3	2.8	3.6
California	3.9	3.8	5.1	4.7	3.4	3.9	3.5	3.3	3.4
Colorado	2.0	2.1	3.0	3.1	2.1	2.9	2.2	2.0	2.0
Connecticut	2.7	2.6	3.4	2.9	1.8	2.3	1.6	1.7	1.5
Delaware	3.4	3.5	3.5	2.6	2.0	2.3	1.4	1.4	1.2
District of Columbia	2.7	2.6	3.6	3.2	2.5	2.3	2.0	2.2	2.0
Florida	2.0	1.8	2.5	2.1	1.4	1.3	1.2	1.6	1.4
Georgia	2.5	2.5	3.4	2.5	1.8	2.2	1.8	1.7	1.6
Hawaii	2.8	3.1	3.5	3.4	2.9	2.8	2.5	2.4	2.2
Idaho	5.0	5.0	7.1	5.6	4.2	6.2	4.1	3.7	4.0
Illinois	4.4	4.3	5.4	4.8	3.1	4.1	3.2	2.8	2.9
Indiana	4.2	3.2	4.7	3.7	2.5	3.4	2.2	1.8	1.9
Iowa	3.2	2.9	4.4	3.7	2.7	4.2	2.7	2.4	2.8
Kansas	2.6	2.4	4.0	3.1	2.2	3.1	2.2	2.1	2.4
Kentucky	5.4	4.5	5.8	4.9	3.3	4.4	2.9	2.7	3.0
Louisiana	2.9	2.7	4.5	5.2	3.9	4.7	4.2	4.2	4.3
Maine	4.4	4.2	4.7	4.5	3.7	5.1	3.5	2.8	2.8
Maryland	3.1	3.2	4.2	3.5	2.3	2.9	2.0	1.9	2.0
Massachusetts	3.3	3.4	3.9	3.2	2.3	2.9	2.2	2.2	2.2
Michigan	8.1	5.9	7.3	4.7	3.4	4.6	3.0	2.6	2.7
Minnesota	3.1	2.8	4.0	3.1	2.3	3.8	2.3	1.9	2.4
Mississippi	4.0	3.9	5.8	5.0	3.7	4.6	3.6	3.5	3.1
Missouri	4.3	3.7	4.3	3.5	2.5	3.4	2.2	2.2	2.4
Montana	4.4	4.1	5.2	4.8	4.1	5.8	3.7	2.6	3.5
Nebraska	1.9	1.9	2.7	2.7	2.0	3.2	2.1	1.8	2.3
Nevada	3.1	3.5	4.6	4.0	2.9	3.4	2.6	2.4	2.8
New Hampshire	2.2	2.2	2.8	2.2	1.5	1.4	1.0	0.9	0.8
New Jersey	4.7	4.3	4.7	3.9	3.1	3.7	2.8	2.7	2.3
New Mexico	2.8	2.7	3.8	4.0	2.9	3.3	2.9	2.6	2.6
New York	3.7	3.4	3.8	3.5	3.0	3.4	2.7	2.5	2.4
North Carolina	2.9	3.0	4.7	3.1	2.2	3.2	2.2	2.0	1.8
North Dakota	2.9	2.7	3.3	3.5	3.0	5.0	2.9	2.0	2.6
Ohio	4.9	4.1	5.8	4.2	3.0	4.0	2.8	2.5	2.8
Oklahoma	1.7	1.4	3.0	3.0	2.0	2.8	2.4	2.2	2.3

TABLE 2.—STATE INSURED UNEMPLOYMENT RATES FOR CALENDAR YEARS 1980–84 AND RATES BY CALENDAR QUARTER FOR 1985 UNDER THE UNEMPLOYMENT COMPENSATION PROGRAM—Continued

[Percent]

	1980	1981	1982	1983	1984	1985			
						I	II	III	IV
Oregon	5.4	5.7	7.0	5.5	4.3	5.7	4.6	3.8	4.2
Pennsylvania	5.2	4.4	6.6	5.9	4.2	5.1	3.8	3.4	3.6
Puerto Rico	7.5	8.2	8.9	7.2	6.3	6.9	7.4	7.6	6.6
Rhode Island	5.4	5.0	5.9	4.7	3.5	4.9	3.7	3.1	2.8
South Carolina	3.4	3.7	5.5	3.6	2.5	3.5	2.8	2.6	2.5
South Dakota	2.0	2.3	2.2	1.7	1.2	2.3	1.4	1.1	1.4
Tennessee	4.2	3.8	5.0	3.6	2.5	3.5	2.4	2.4	2.5
Texas	1.5	1.1	2.0	2.4	1.5	1.8	1.5	1.5	1.7
Utah	3.1	3.1	4.7	4.0	2.7	3.6	2.2	1.7	2.1
Vermont	4.3	3.9	5.0	4.3	3.2	4.3	3.2	2.2	2.5
Virgin Islands	2.0	1.9	4.5	1.8	1.2	1.9	1.0	1.0	1.0
Virginia	3.2	3.6	2.4	4.6	3.9	2.9	2.6	2.7	2.7
Washington	4.6	4.9	6.5	5.6	4.4	5.5	4.2	3.7	4.2
West Virginia	5.6	5.7	7.1	7.6	4.9	6.6	4.2	3.6	4.0
Wisconsin	5.2	4.7	5.8	4.7	3.4	5.1	3.2	2.5	3.1
Wyoming	1.4	1.8	3.6	4.4	2.3	3.1	2.5	1.7	2.3
U.S. average	3.9	3.5	4.6	3.9	2.8	3.6	2.7	2.5	2.6

TABLE 3.—SELECTED UNEMPLOYMENT RATES

[Monthly data seasonally adjusted]

Period	Unemployment rate (percent of civilian labor force in group)										
		By sex and age			By race		By selected groups				
	Total (all civilian workers)	Men 20 years and over	Women 20 years and over	Both sexes 16–19 years	White	Black and other	Experienced wage and salary workers	Married men, spouse present	Women who maintain families	Full-time workers	Part-time workers
1976	7.7	5.9	7.4	19.0	7.0	13.1	7.3	4.2	10.1	7.3	10.1
1977	7.1	5.2	7.0	17.8	6.2	13.1	6.6	3.6	9.4	6.6	9.9
1978	6.1	4.3	6.0	16.4	5.2	11.9	5.6	2.8	8.5	5.6	9.0
1979	5.8	4.2	5.7	16.1	5.1	11.3	5.5	2.8	8.3	5.3	8.8
1980	7.1	5.9	6.4	17.8	6.3	13.1	6.9	4.2	9.2	6.9	8.8
1981	7.6	6.3	6.8	19.6	6.7	14.2	7.3	4.3	10.4	7.3	9.4
1982	9.7	8.8	8.3	23.2	8.6	17.3	9.3	6.5	11.7	9.6	10.5
1983	9.6	8.9	8.1	22.4	8.4	17.8	9.2	6.5	12.2	9.5	10.4
1984	7.5	6.6	6.8	18.9	6.5	14.4	7.1	4.6	10.3	NA	NA
1985	7.2	6.2	6.6	18.6	6.2	13.7	6.8	4.3	10.4	NA	NA

NA: Not Available.

Source: Department of Labor, Bureau of Labor Statistics.

TABLE 4.—SELECTED MEASURES OF UNEMPLOYMENT

[Monthly data seasonally adjusted, except as noted]

Period	Unemployment (thousands)	Percent distribution of unemployment by duration [1]				Percent distribution of unemployment by reason [1]			
		Less than 5 weeks	5–14 weeks	15–26 weeks	27 weeks and over	Job losers	Job leavers	Reentrants	New entrants
1977	6,991	41.8	30.5	13.1	14.7	45.3	13.0	28.1	13.6
1978	6,202	46.2	31.0	12.4	10.4	41.7	14.1	29.9	14.3
1979	6,137	48.1	31.7	11.5	8.7	42.9	14.3	29.4	13.3
1980	7,637	43.1	32.3	13.8	10.7	51.7	11.7	25.2	11.4
1981	8,273	41.7	30.7	13.6	14.0	51.6	11.2	25.4	11.9
1982	10,678	36.4	31.0	16.0	16.6	58.7	7.9	22.3	11.1
1983	10,717	33.3	27.4	15.4	23.9	58.4	7.7	22.5	11.3
1984	8,539	39.2	28.7	12.9	19.1	51.8	9.6	25.6	13.0
1985	8,312	42.1	30.2	12.3	15.4	49.8	10.6	27.1	12.5

---

[1] Detail may not add to 100 percent because of rounding.

TABLE 5.—EXHAUSTIONS—REGULAR PROGRAM

[In thousands]

	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
January	162	169	152	147	229	332	261	211	184	215	309	258	421	269	238
February	158	168	127	129	230	295	251	184	160	201	275	267	394	245	207
March	188	184	143	146	278	326	290	201	193	220	291	341	470	251	228
April	182	171	138	167	369	305	265	192	185	259	289	362	431	245	250
May	167	179	141	178	406	273	242	193	195	251	246	338	398	243	233
June	180	159	119	159	438	282	254	176	162	246	244	378	383	198	192
July	164	149	119	190	487	263	215	151	169	298	247	360	336	213	232
August	161	153	124	174	413	254	234	158	166	256	215	365	341	212	202
September	149	121	100	145	370	239	198	138	140	254	207	351	264	163	180
October	136	117	111	155	350	212	183	133	161	292	200	347	244	197	207
November	140	123	110	152	291	231	192	144	159	259	201	384	249	183	180
December	154	120	112	186	336	251	192	149	162	319	265	424	248	188	206
Total	1,942	1,811	1,495	1,926	4,195	3,262	2,776	2,030	2,037	3,072	2,989	4,175	4,180	2,607	2,555

Source: U.S. Department of Labor, Employment and Training Administration, Unemployment Insurance Service, Division of Actuarial Services.

TABLE 6.—EXHAUSTIONS—EXTENDED BENEFITS—Continued

[In thousands]

	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
January	10	52	366	177	126	11	24	169	9	91	7	4
February	9	50	215	166	66	10	15	128	14	95	6	4
March	10	100	244	187	50	13	18	134	38	128	7	*
April	13	161	253	177	45	15	28	117	114	153	6	7
May	62	207	190	159	49	31	74	95	134	156	12	9
June	65	228	197	170	49	19	66	90	193	120	3	5
July	55	245	175	141	50	13	67	48	128	44	1	5
August	41	245	178	92	38	12	64	21	121	23	*	6
September	38	271	180	94	23	11	139	23	126	11	*	5
October	47	294	174	137	30	14	208	15	126	7	1	*
November	46	258	187	136	12	12	147	14	93	6	3	3
December	47	286	178	137	10	11	189	11	94	6	4	*
Year total	441	2,398	2,536	1,774	549	172	1,039	862	1,188	840	50	48

* Less than 500.

Source: U.S. Department of Labor, Employment and Training Administration, Unemployment Insurance Service, Division of Actuarial Services.

TABLE 7.—BENEFIT EXHAUSTIONS UNDER FEDERAL SUPPLEMENTAL BENEFITS (1974–77) AND FEDERAL SUPPLEMENTAL COMPENSATION

[In thousands]

	1973	Federal supplemental benefits				1978–81 [1]	Federal supplemental compensation			
		1974	1975	1976	1977		1982	1983	1984	1985
January			49	108	185			226	225	98
February			63	130	105			419	168	80
March			112	136	73			315	145	89
April			97	169	33			68	113	83
May		1	96	181	33			113	115	75
June		6	80	164	7			730	95	33
July		49	91	169				352	96	
August		35	93	174				291	94	
September		48	92	145				300	79	
October		119	81	157			18	215	90	
November		58	103	116			350	130	81	
December		58	103	116			314	424	81	
Total		374	1,060	1,765	436		682	3,583	1,382	458

[1] There was no program in these years.

Note.—FSC exhaustions are not additive because reach back provisions caused claimants to receive as many as 3 final payments.

Source: U.S. Department of Labor, Employment and Training Administration, Unemployment Insurance Service, Division of Actuarial Services.

TABLE 8.—UNEMPLOYMENT COMPENSATION BENEFITS PAID BY PROGRAM IN FISCAL YEAR 1985

[In millions of dollars]

State	Programs			Total
	Regular	Extended	Supplemental	
Alabama	177	0	17	194
Alaska	110	10	7	127
Arizona	77	0	4	81
Arkansas	114	0	7	121
California	1,916	0	147	2,063
Colorado	161	0	7	168
Connecticut	174	0	7	181
Delaware	23	0	1	24
District of Columbia	55	0	4	59
Florida	242	0	22	264
Georgia	208	0	9	217
Hawaii	65	0	4	69
Idaho	66	4	6	76

TABLE 8.—UNEMPLOYMENT COMPENSATION BENEFITS PAID BY PROGRAM IN FISCAL YEAR 1985—Continued

[In millions of dollars]

State	Programs			Total
	Regular	Extended	Supplemental[1]	
Illinois	910	0	66	976
Indiana	193	0	18	211
Iowa	175	0	13	188
Kansas	132	0	5	137
Kentucky	171	0	17	188
Louisiana	451	0	58	509
Maine	67	0	5	72
Maryland	204	0	9	213
Massachusetts	392	0	16	408
Michigan	611	0	28	639
Minnesota	302	0	16	318
Mississippi	105	0	11	116
Missouri	187	0	8	195
Montana	55	0	7	62
Nebraska	58	0	2	60
Nevada	69	0	5	74
New Hampshire	19	0	1	20
New Jersey	605	0	0	605
New Mexico	63	0	3	66
New York	1,203	0	88	1,291
North Carolina	253	0	13	266
North Dakota	46	0	4	50
Ohio	738	0	84	822
Oklahoma	161	0	10	171
Oregon	247	0	21	268
Pennsylvania	1,098	0	133	1,231
Puerto Rico	116	32	12	160
Rhode Island	78	0	6	84
South Carolina	143	0	8	151
South Dakota	13	0	1	14
Tennessee	178	0	12	190
Texas	626	0	47	673
Utah	80	0	5	85
Vermont	32	0	2	34
Virginia	142	0	6	148
Virgin Islands	6	0	1	7
Washington	407	0	44	451

BEST COPY AVAILABLE

TABLE 8.—UNEMPLOYMENT COMPENSATION BENEFITS PAID BY PROGRAM IN FISCAL YEAR 1985—Continued

[In millions of dollars]

State	Programs			Total
	Regular	Extended	Supplemental	
West Virginia	163	10	10	183
Wisconsin	408	0	31	439
Wyoming	30	0	2	32

Source: U.S. Department of Labor, Employment and Training Administration, Unemployment Insurance, Division of Acutuarial Service.

TABLE 9.—U.S. AVERAGE BENEFIT COST RATE: REGULAR STATE UI PLUS ½ EXTENDED BENEFIT AS PERCENT OF COVERED WAGES

Year	First quarter	Second quarter	Third quarter	Fourth quarter	Average
1971	1.52	1.19	1.05	1.06	1.20
1972	1.23	.92	.78	.72	.91
1973	.96	.72	.62	.66	.74
1974	1.13	.98	.89	1.13	1.03
1975	2.31	2.31	1.90	1.68	2.05
1976	1.85	1.42	1.28	1.30	1.46
1977	1.62	1.17	1.00	1.02	1.20
1978	1.19	.82	.73	.70	.86
1979	1.03	.77	.73	.81	.84
1980	1.23	1.23	1.32	1.21	1.25
1981	1.31	1.02	.93	1.09	1.09
1982	1.61	1.56	1.55	1.66	1.59
1983	1.87	1.42	1.02	.88	1.30
1984	1.03	.78	.68	.75	.81
1985	1.02	.82	.74	.78	.84

Note: 1971–74 EB data not available.

TABLE 10.—U.S. AVERAGE WAGE REPLACEMENT RATE: RATIO OF AVERAGE WEEKLY BENEFIT AMOUNT TO AVERAGE WEEKLY WAGE

Year	First quarter	Second quarter	Third quarter	Fourth quarter	Average
1971	0.347	0.346	0.344	0.356	0.348
1972	.356	.356	.355	.361	.357
1973	.354	.350	.343	.354	.350
1974	.349	.349	.358	.365	.355
1975	.352	.358	.366	.377	.363
1976	.363	.362	.356	.366	.362
1977	.358	.351	.347	.362	.354

TABLE 10.—U.S. AVERAGE WAGE REPLACEMENT RATE: RATIO OF AVERAGE WEEKLY BENEFIT AMOUNT TO AVERAGE WEEKLY WAGE—Continued

Year	First quarter	Second quarter	Third quarter	Fourth quarter	Average
1978	.360	.351	.345	.357	.353
1979	.350	.345	.345	.362	.351
1980	.350	.358	.359	.363	.357
1981	343	.346	.348	.363	.350
1982	.356	.362	.366	.377	.365
1983	.365	.364	.356	.357	.360
1984	.356	.355	.346	.357	.354
1985	.348	.347	.345	.356	.349

Prepared by DOL/ETA/UIS/DAS.

TABLE 11.—NUMBER UNEMPLOYED 27 WEEKS OR LONGER AS A PERCENT OF ALL UNEMPLOYED

	First quarter	Second quarter	Third quarter	Fourth quarter
1971	8.7	11.1	11.0	10.8
1972	12.1	13.5	10.8	9.8
1973	8.6	8.5	7.0	7.4
1974	6.8	8.3	7.5	7.1
1975	8.7	14.8	18.7	19.1
1976	19.7	20.1	16.7	16.3
1977	15.5	16.5	13.6	12.9
1978	11.1	11.8	10.1	8.7
1979	9.0	9.5	8.1	8.3
1980	8.3	9.9	11.1	13.5
1981	15.3	15.0	13.7	12.3
1982	13.0	16.7	17.1	19.4
1983	23.2	26.3	23.8	21.9
1984	21.0	21.0	17.7	16.5
1985	15.8	16.4	14.7	14.7

Source: U.S. Department of Labor.

TABLE 12.—UNEMPLOYMENT RATES BY STATE AND SELECTED METROPOLITAN AREAS

[In percent]

State and area	October		November	
	1982	1983	1982	1983p
Alabama	10.5	7.9	10.7	7.8
Birmingham	9.8	6.5	9.4	6.3
Huntsville	6.8	5.2	6.3	5.4
Mobile	11.4	8.5	11.2	8.3
Montgomery	8.2	6.2	8.5	6.5
Tuscaloosa	9.1	6.5	9.0	6.5
Alaska	9.0	9.2	10.3	10.2
Arizona	4.4	6.6	4.2	6.6
Phoenix	3.3	5.1	3.2	5.1
Tucson	4.2	5.4	4.0	5.6
Arkansas	8.3	8.7	8.9	9.4
Fayetteville-Springdale	4.5	4.7	5.3	4.7
Fort Smith[1]	7.6	8.0	7.8	8.1
Little Rock-North Little Rock	6.7	7.0	6.7	6.9
Pine Bluff	8.9	8.4	8.9	9.0
California[2]	7.0	7.2	7.1	6.6
Anaheim-Santa Ana	3.8	4.3	3.7	3.6
Bakersfield	11.5	12.4	11.6	11.1
Fresno	11.2	12.6	13.0	12.3
Los Angeles-Long Beach[2]	7.7	6.9	7.1	6.6
Modesto	12.8	13.8	15.1	13.7
Oakland	6.1	6.7	6.2	5.7
Oxnard-Ventura	8.0	8.7	8.1	7.4
Riverside-San Bernardino	7.7	8.2	7.6	6.9
Sacramento	7.0	7.0	7.7	6.6
Salinas-Seaside-Monterey	8.8	8.8	10.9	10.6
San Diego	5.5	5.5	5.3	4.6
San Francisco	4.5	5.0	4.5	4.3
San Jose	4.4	5.9	4.3	5.1
Santa Barbara-Santa Maria-Lompoc	5.6	5.3	5.6	5.0
Santa Rosa-Petaluma	5.4	6.3	6.3	6.0
Stockton	10.6	11.7	13.8	12.6
Vallejo-Fairfield-Napa	7.3	7.7	8.2	7.2
Colorado	5.3	5.5	5.2	6.2
Denver-Boulder LMA	4.7	4.9	4.5	5.4
Connecticut	4.0	4.6	4.2	4.2
Bridgeport-Milford	4.5	5.7	4.8	5.3
Hartford	3.8	4.1	3.9	3.7
New Britain	4.7	5.1	5.1	4.8
New Haven-Meriden	4.2	4.6	4.5	4.2
Stamford	2.6	3.1	2.6	3.0
Waterbury	4.3	6.5	4.9	5.8
Delaware	4.9	4.3	5.2	4.3
Wilmington[3]	5.1	4.4	5.3	4.4
District of Columbia	8.7	8.7	8.4	8.4
Washington[3]	4.0	3.9	3.7	3.9
Florida[2]	7.0	5.3	6.2	5.5
Daytona Beach	5.5	4.1	5.1	4.8
Fort Lauderdale-Hollywood-Pompano Beach	5.6	4.3	4.9	4.3
Fort Myers-Cape Coral	5.4	4.1	5.1	3.5
Gainesville	4.3	2.9	3.5	3.3
Jacksonville	6.2	4.5	5.3	5.4
Lakeland-Winter Haven	13.6	10.4	11.9	10.2
Melbourne-Titusville-Palm Bay	5.8	4.4	4.6	4.9
Miami-Hialeah	8.9	6.7	7.9	6.4
Orlando	5.7	4.3	5.0	4.8
Pensacola	6.6	4.7	8.2	5.5
Sarasota	4.8	3.8	4.1	4.0
Tallahassee	4.3	3.3	4.2	4.0
Tampa-St. Petersburg-Clearwater	5.4	4.2	4.9	4.6
West Palm Beach-Boca Raton-Delray Beach	7.4	6.1	5.7	5.3

State and area	October		November	
	1984	1983	1984	1983p
Georgia	5.8	6.7	5.6	6.1
Albany	8.6	9.9	7.2	9.7
Athens	4.5	5.8	5.0	6.3
Atlanta	4.6	5.3	4.3	4.8
Augusta[1]	6.8	8.0	6.5	7.1
Columbus[1]	7.5	8.7	8.3	8.4
Macon-Warner Robins	6.7	8.1	6.6	7.2
Savannah	7.0	8.0	6.7	7.8
Hawaii	6.0	5.5	5.7	5.4
Honolulu	5.8	5.0	5.5	5.1
Idaho	5.4	5.9	6.7	7.6
Boise City	4.2	4.6	4.7	5.7
Illinois[2]	8.8	9.8	8.1	9.8
Aurora-Elgin	6.9	7.8	6.3	7.8
Bloomington-Normal	6.1	5.4	6.2	6.6
Champaign-Urbana-Rantoul	5.2	4.8	5.5	5.4
Chicago	8.5	8.7	7.4	8.1
Davenport-Rock Island-Moline[1]	11.1	10.9	10.8	10.5
Decatur	9.4	11.0	9.2	11.2
Joliet	7.6	8.2	7.3	7.9
Lake County	5.7	5.9	4.9	5.9
Kankakee	11.0	11.5	10.8	11.9
Peoria	10.1	11.0	9.3	10.8
Rockford	9.0	10.7	8.3	10.3
Springfield	6.8	6.6	6.8	7.4
Indiana	7.8	6.8	8.2	7.2
Anderson	7.7	6.5	8.4	6.7
Elkhart-Goshen	6.0	6.0	7.1	6.6
Evansville[1]	7.9	7.1	8.2	7.4
Fort Wayne	6.3	5.4	6.7	5.7
Gary-Hammond	14.8	10.4	14.7	10.8
Indianapolis	6.2	5.5	6.2	5.7
Lafayette	4.1	3.7	4.2	4.1
Muncie	8.3	7.4	8.8	8.2
South Bend-Mishawaka	6.3	6.0	6.6	5.9
Terre Haute	7.5	6.5	8.0	6.8
Iowa	6.0	6.5	6.4	7.4
Cedar Rapids	6.3	6.2	6.0	6.8
Des Moines	5.1	6.3	4.8	6.0
Dubuque	7.3	7.8	7.6	7.8
Iowa City	2.9	2.6	2.9	2.6
Sioux City[1]	5.5	7.3	6.1	8.1
Waterloo-Cedar Falls	10.9	11.5	11.1	12.3
Kansas	5.0	4.6	5.2	5.2
Lawrence	3.9	3.2	4.2	3.9
Topeka	5.7	5.0	5.3	5.4
Wichita	5.8	5.4	5.9	5.4
Kentucky	8.5	9.3	8.7	10.0
Lexington-Fayette	4.2	5.0	3.7	5.4
Louisville[1]	8.5	7.7	8.0	8.0
Owensboro	8.6	10.7	8.4	11.5
Louisiana	9.5	10.9	9.6	11.0
Alexandria	7.6	8.7	7.9	8.8
Baton Rouge	8.5	10.1	8.6	9.9
Houma-Thibodaux	8.8	10.8	9.4	10.6
Lafayette	7.6	9.2	8.3	8.9
Lake Charles	12.7	13.3	11.7	13.0
Monroe	8.9	9.2	8.8	9.4
New Orleans	9.5	11.0	9.6	10.7
Shreveport	7.1	9.5	7.0	10.4
Maine	5.0	5.9	5.3	4.6
Lewiston-Auburn	6.4	4.9	6.3	5.8
Portland	3.5	2.4	3.6	2.7
Maryland	5.0	4.4	5.1	4.5
Baltimore	5.9	5.4	6.0	5.4

BEST COPY AVAILABLE

State and area	October 1984	October 1985	November 1984	November 1985p
Massachusetts[2]	3.4	3.3	3.4	3.6
Boston	3.0	2.9	2.7	3.1
Brockton	3.9	3.7	3.7	3.9
Fall River[1]	5.3	5.9	6.1	6.4
Fitchburg-Leominster	4.1	4.0	5.2	4.1
Lawrence-Haverhill[1]	4.3	4.0	4.3	4.0
Lowell[1]	2.9	3.3	2.9	3.2
New Bedford	5.3	5.7	6.0	6.3
Pittsfield	3.2	2.9	3.6	3.5
Springfield	3.5	3.3	3.8	3.7
Worcester	3.1	3.2	3.2	3.3
Michigan[2]	10.1	9.4	10.7	8.9
Ann Arbor	6.8	(3)	6.6	(3)
Battle Creek	11.0	(3)	11.1	(3)
Benton Harbor	11.6	(3)	11.8	(3)
Detroit	9.6	(3)	10.2	(3)
Flint	12.1	(3)	11.8	(3)
Grand Rapids	8.3	(3)	9.6	(3)
Jackson	11.5	(3)	12.6	(3)
Kalamazoo	6.9	(3)	7.5	(3)
Lansing-East Lansing	8.1	(3)	7.7	(3)
Muskegon	11.0	(3)	11.8	(3)
Saginaw-Bay City-Midland	13.9	(3)	13.6	(3)
Minnesota	5.1	5.3	6.0	6.4
Duluth[1]	8.7	9.2	11.3	10.7
Minneapolis-St. Paul[1]	4.2	4.5	4.4	4.9
Rochester	3.9	3.8	4.9	4.7
St. Cloud	6.9	6.2	8.1	8.6
Mississippi	9.9	9.4	10.2	9.3
Jackson	6.7	7.0	6.4	7.2
Missouri	6.4	5.8	6.2	5.9
Kansas City[1]	5.0	4.6	5.0	4.8
St. Joseph	8.1	6.3	7.7	6.4
St. Louis[1]	7.6	7.0	7.0	6.9
Springfield	4.0	4.3	4.9	4.5
Montana	6.1	6.8	6.6	7.9
Nebraska	3.8	5.0	3.7	6.2
Lincoln	2.7	3.4	2.4	4.0
Omaha[1]	4.3	5.6	4.2	6.1
Nevada	7.2	7.6	7.2	8.2
Las Vegas	8.2	8.5	7.8	8.4
Reno	5.2	5.8	5.7	7.4
New Hampshire	3.2	2.6	3.2	2.7
Manchester	2.3	2.0	2.1	2.0
Nashua	2.4	2.7	2.2	2.7
New Jersey[2]	5.1	5.5	5.4	5.6
Atlantic City	7.5	8.1	8.7	9.1
Bergen-Passaic	4.3	4.9	4.8	4.8
Jersey City	8.9	9.1	9.6	9.1
Middlesex-Somerset-Hunterdon	4.0	4.2	3.8	4.1
Monmouth-Ocean	4.5	4.5	4.7	4.8
Newark	5.2	6.1	5.5	6.1
Trenton	4.2	4.4	4.2	4.3
Vineland-Millville-Bridgeton	10.8	9.2	12.3	11.5
New Mexico	7.1	8.8	7.0	8.6
Albuquerque	6.0	6.8	5.7	6.5
Las Cruces	7.1	9.2	6.8	8.3

State and area	October		December	
	1984	1985	1984	1985p
New York[2]	7.1	6.6	6.7	6.1
Albany-Schenectady-Troy	5.2	5.1	5.5	4.8
Binghamton	5.8	6.4	5.6	6.0
Buffalo	7.7	7.0	8.1	6.7
Elmira	7.9	8.8	8.9	8.1
Glens Falls	6.8	6.9	8.5	7.8
Nassau-Suffolk	4.8	4.5	4.9	4.8
New York	8.8	7.7	7.3	6.7
New York City[2]	9.7	8.4	7.9	7.3
Orange County	5.6	5.6	5.8	5.2
Poughkeepsie	3.7	3.3	3.8	3.5
Rochester	4.9	5.0	5.6	5.1
Syracuse	5.4	6.1	6.0	6.0
Utica-Rome	6.3	7.4	7.8	7.4
North Carolina[2]	6.4	4.6	6.4	4.8
Asheville	6.2	4.0	6.5	4.2
Charlotte-Gastonia-Rock Hill[1]	5.7	4.6	5.4	4.3
Greensboro-Winston Salem-High Point	5.6	4.4	5.3	4.3
Raleigh-Durham	3.3	2.5	3.2	2.3
North Dakota	4.1	5.1	4.8	6.6
Bismarck	6.0	7.1	6.4	8.3
Fargo-Moorhead[1]	2.7	3.1	3.9	4.2
Grand Forks	2.8	2.7	3.3	3.9
Ohio[2]	9.1	9.0	8.9	9.0
Akron	9.2	9.2	9.0	9.3
Canton	10.2	11.2	10.4	11.4
Cincinnati[1]	8.0	7.3	7.4	7.1
Cleveland	8.9	8.6	8.3	8.3
Columbus	7.1	6.3	6.7	6.5
Dayton-Springfield	7.3	7.6	7.0	7.4
Toledo	8.7	8.0	8.6	7.9
Youngstown-Warren	12.2	11.4	12.6	11.7
Oklahoma	6.6	6.8	6.6	6.9
Enid	6.0	6.9	6.0	6.8
Lawton	6.7	5.7	5.7	5.3
Oklahoma City	5.4	5.7	5.3	5.8
Tulsa	6.7	6.7	6.3	6.9
Oregon	8.3	6.7	9.2	7.3
Eugene-Springfield	8.7	6.8	9.5	7.3
Portland	7.3	6.1	7.6	6.3
Salem	7.0	5.8	7.9	6.9
Pennsylvania[2]	8.2	7.1	8.1	7.6
Allentown-Bethlehem[1]	8.2	7.7	7.9	8.4
Altoona	9.7	9.8	10.0	9.9
Beaver County	13.2	13.4	12.8	14.3
Erie	8.2	7.3	8.8	8.3
Harrisburg-Lebanon-Carlisle	5.3	4.6	5.2	4.8
Johnstown	12.4	9.8	14.7	12.0
Lancaster	4.2	3.7	4.4	3.7
Philadelphia[1]	6.1	5.5	6.0	5.6
Pittsburgh	10.7	8.3	10.3	8.7
Reading	6.4	6.5	6.0	6.3
Scranton-Wilkes-Barre	9.3	8.0	9.4	9.0
Sharon	10.5	8.3	10.7	9.3
State College	7.1	6.9	7.2	8.1
Williamsport	8.6	7.0	9.0	8.1
York	6.4	6.2	6.3	6.6

BEST COPY AVAILABLE

State and area	October		November	
	1984	1985	1984	1985p
Rhode Island	4.2	3.8	4.8	4.0
Pawtucket-Woonsocket-Attleboro[1]	5.0	4.9	5.6	5.1
Providence	4.1	3.6	4.6	3.9
South Carolina	6.9	7.2	6.8	7.3
Charleston	5.4	5.0	4.8	5.8
Columbia	4.5	4.2	4.1	4.3
Greenville-Spartanburg	6.0	6.3	5.8	6.3
South Dakota	4.2	4.3	4.6	5.7
Sioux Falls	3.4	4.3	2.8	5.2
Tennessee	7.9	7.0	8.2	7.3
Chattanooga[1]	6.5	6.1	7.0	6.0
Johnson City-Kingsport-Bristol[1]	7.7	6.5	7.6	6.8
Knoxville	7.8	6.7	8.9	7.2
Memphis LMA[1]	6.3	6.2	6.6	6.3
Nashville	5.2	4.2	4.7	4.2
Texas[2]	5.3	7.6	5.4	6.3
Abilene	3.8	5.8	3.8	6.0
Amarillo	4.4	5.9	4.6	5.2
Austin	3.1	3.1	3.0	4.9
Beaumont-Port Arthur	9.7	14.0	10.5	11.5
Brazoria	6.0	8.7	5.7	7.4
Brownsville-Harlingen	11.9	14.8	12.9	12.7
Bryan-College Station	3.1	3.0	3.2	4.7
Corpus Christi	7.1	9.5	7.2	8.2
Dallas	3.3	3.3	3.2	4.6
El Paso	9.2	11.2	10.1	9.1
Fort Worth-Arlington	3.6	3.3	3.3	4.9
Galveston-Texas City	8.3	11.7	9.2	9.8
Houston	5.7	8.1	5.9	6.9
Killeen-Temple	5.4	8.5	5.0	8.2
Laredo	13.5	14.7	14.7	12.7
Longview-Marshall	7.0	10.9	7.2	9.4
Lubbock	4.5	6.3	4.3	4.9
McAllen-Edinburg-Mission	18.8	21.7	20.8	17.1
Midland	3.6	3.4	3.4	4.3
Odessa	4.3	6.5	4.5	5.0
San Angelo	3.8	5.5	3.6	4.1
San Antonio	4.6	6.5	4.5	5.6
Sherman-Denison	4.7	7.1	5.2	6.4
Texarkana[1]	6.8	9.6	7.1	8.8
Tyler	4.1	7.8	4.4	6.5
Victoria	3.1	7.4	3.1	6.8
Waco	5.1	5.8	4.4	5.2
Wichita Falls	4.2	5.8	4.6	5.5
Utah	6.0	5.3	6.1	6.1
Provo-Orem	6.2	5.5	6.3	6.9
Salt Lake City-Ogden	5.6	5.0	5.5	5.6
Vermont	4.1	3.9	4.6	4.6
Burlington	2.9	2.7	3.0	3.1
Virginia	4.8	5.3	4.8	5.4
Charlottesville	4.0	4.5	4.6	4.1
Danville	7.8	9.0	8.4	9.3
Lynchburg	5.7	5.9	5.3	6.1
Norfolk-Virginia Beach-Newport News	4.4	5.0	4.1	4.9
Richmond-Petersburg	4.4	4.6	4.2	4.7
Roanoke	3.8	5.1	3.9	5.1
Washington	8.6	7.4	9.2	7.8
Seattle	7.3	6.3	7.3	6.0

State and area	October		November	
	1984	1985	1984	1985p
West Virginia	15.4	12.5	13.3	13.6
Charleston	12.6	9.8	11.7	9.6
Huntington-Ashland[1]	13.4	12.4	12.8	13.1
Parkersburg-Marietta[1]	10.4	10.9	10.3	10.9
Wheeling[1]	14.8	14.2	13.3	13.3
Wisconsin	6.4	6.3	6.7	6.8
Appleton-Oshkosh-Neenah	5.9	5.7	6.7	6.6
Eau Claire	6.5	6.3	7.5	7.3
Green Bay	5.9	5.3	6.5	5.9
Janesville-Beloit	12.4	6.8	6.8	6.9
Kenosha	6.6	10.9	7.8	11.1
La Crosse	5.7	5.2	5.9	5.4
Madison	4.3	3.8	4.3	4.5
Milwaukee	6.0	6.1	6.0	6.0
Racine	6.7	7.8	7.7	7.7
Sheboygan	5.6	6.1	5.7	6.6
Wausau	7.3	7.0	7.9	7.7
Wyoming	5.8	6.1	5.3	7.8

---

[1] Includes interstate portion of area located in adjacent State.

[2] Data are obtained directly from the Current Population Survey. Official estimates for North Carolina prior to 1985 are not derived from the Current Population Survey. (See "Explanatory Notes" for State and Area Labor Force Data in Employment and Earnings, Monthly.)

[3] Data not available.

p = preliminary.

NOTE: Data refer to place of residence. Estimates for 1984 have been benchmarked to 1984 Current Population Survey annual averages. Except in the 11 States and 2 areas designated by footnote 2, estimates for 1985 are provisional and will be revised when new benchmark information becomes available.

Section 8. Aid to Families With Dependent Children (Title IV-A)

ELIGIBILITY

Aid to dependent children (ADC) was established by the Social Security Act of 1935 as a cash grant program to enable States to aid needy children without fathers. Renamed Aid to Families With Dependent Children (AFDC), the program provides cash welfare payments for needy children (and their mothers or other caretaker relatives), who have been deprived of parental support or care because:

—their fathers are absent from home continuously (86.9 percent of the children),[1] are incapacitated (5.3 percent), deceased (2.2 percent), or unemployed (4.1 percent); or

—their mothers are incapacitated, absent or dead (1.5 percent). (Percentages are from the 1979 AFDC study.)

States define "need," set their own benefit levels, establish (within Federal limitations) income and resource limits, and administer the program or supervise its administration. All States, the District of Columbia, Guam, Puerto Rico, and the Virgin Islands offer AFDC to needy children without able-bodied fathers at home, and 26 jurisdictions offer Federal cash supplements also to children in two-parent families who are needy because of the unemployment of one of their parents (Aid to Families With Dependent Children of Unemployed Parents (AFDC-UP)). Eligibility for AFDC on the basis of a parent's unemployment is limited to those families in which the principal wage earner is unemployed.

Eligibility for federally aided AFDC ends on a child's 18th birthday, or at State option upon a child's 19th birthday if the child is a full-time student in a secondary or technical school and may reasonably be expected to complete the program before he or she reaches age 19. Before passage of the Omnibus Budget Reconciliation Act (OBRA) of 1981, Public Law 97-35, a State could continue benefits through age 20 for students.

Federal law requires certain able-bodied recipients, including mothers whose youngest child is at least 6 years old, to register for work or job training. States may require work registrants to participate in one of several work programs: Work Incentive (WIN) Program; Community Work Experience Program (CWEP), Work Supplementation, or Job Search.

In 1981, Congress required that a portion of the income of a stepparent be counted in determining AFDC eligibility and benefit amounts. In 1984, a standard definition of the AFDC assistance unit was established for the first time. Under this requirement, the parent(s) in the home and all minor related children are to be included in the AFDC unit, with eligibility and benefits based on the income and circumstances of this family unit. SSI recipients and stepbrothers and stepsisters are excluded from this requirement and the first $50 of monthly child support received by the unit is disregarded when determining eligibility and benefits. In addition, if a minor who is living in the same home as her parents applies for aid as the parent of a needy child, the income of the minor's parents is to be counted as available to the filing unit.

---

[1] In May 1982 according to the HHS quality control case sample, 87.6 percent of fathers of AFDC children were absent and 46.5 percent were not married to the children's mother.

Finally, Federal law requires AFDC mothers to assign their child support rights to the State and to cooperate with welfare officials in establishing the paternity of a child born outside o marriage and in obtaining support payments from the father. AFDC also provides cash aid for foster care of AFDC-eligible children removed from their homes by judicial order and, under certain conditions, for those *voluntarily placed* in foster care.

TREATMENT OF EARNINGS

States are required by Federal law to disregard certain earned income when determining the amount of benefits to which a recipient family is entitled. Before OBRA, in order to provide a financial incentive for recipients to seek and maintain employment, Federal law required the deduction of an initial $30 in monthly earnings plus one-third of remaining earnings, plus work expenses (any expenses, including child care costs, reasonably attributable to the earning of income). When making an initial determination of eligibility, however, only work expenses were disregarded.

Amendments in OBRA changed the order in which the disregards were applied, limited the disregard for work expenses to $75 per month, capped the child care disregard at $160 per month per child, and specified that the HHS Secretary could lower these sums for part-time work. The $30 plus one-third disregard was allowed for only 4 consecutive months in a 12-month period. States were prohibited from paying AFDC to any family with a *gross* income above 150 percent of the State's standard of need and were required to assume that working AFDC recipients received a monthly earned income tax credit (EITC), if they appeared eligible for it and regardless of when or if the credit was actually available. Under prior law, the EITC was counted only when received; most AFDC recipients did not receive the EITC on a monthly basis. These changes substantially reduced the amount of earnings a recipient could have and remain eligible for an AFDC payment.

In 1984, Congress further revised these disregards. The gross income limit was increased to 185 percent of the State standard of need, the work expense disregard of $75 per month was applied to both full- and part-time workers, and the $30 disregard—originally a part of $30 and one-third—was extended for an additional 8 months beyond the 4-month limit on the one-third deduction. The 1984 legislation also returned to prior law policy with respect to the earned income tax credit: it is to be counted only when actually received.

Table 1 illustrates the impact of the 1981 and 1984 changes on a mother with two children working full-time at the minimum wage. The need and payment standard are assumed to be $420 per month, roughly equivalent to the payment level in a high benefit State or $338 per month, the average payment level for a family of three in 1985.

TABLE 1.—CALCULATION OF BENEFITS FOR A FULL-TIME MINIMUM WAGE WORKER UNDER PRE-OBRA, OBRA, AND CURRENT LAW

	Pre-OBRA	OBRA		New law (DEFRA)		
		First 4 months	After 4 months	First 4 months	After 4 months	After 12 months
Income:						
Gross earnings	581	581	581	581	581	581
EITC		+32	+32			
Gross income	581	613	613	581	581	581
Disregards:						
Initial disregards [1]	−30	−105	−75	−105	−105	−75
One-third of rest	−194	(2)	(2)	(2)	(2)	(2)
Child care	−100	−100	−100	−100	−100	−100
One-third of rest	(2)	−136	0	−125	0	0
Other expenses	[3] −70	(2)	(2)	(2)	(2)	(2)
Total disregards	394	341	175	330	205	175
Net countable income	187	272	438	251	376	406
AFDC benefits:						
$420 payment standard	233	148	0	169	44	14
$338 payment standard	151	66	0	87	0	0

[1] Pre-OBRA: $30 disregard. OBRA: Standard work expense deduction of $75 plus $30 in first 4 months. New Law: Standard work expense deduction of $75 plus $30 disregard in first 12 months.

[2] Not applicable.

[3] Itemized work expenses including payroll deductions and transportation.

Monthly Reporting and Retrospective Budgeting

AFDC eligibility and benefits are determined monthly. Public Law 97–35 required States to determine eligibility on the basis of the family's circumstances in the current month; payment amounts were to be determined "retrospectively"—on the basis of the family's countable income and resources in the preceding month (or, at the discretion of the Secretary of Health and Human Services, the second preceding month). In addition, States were to require recipients to provide monthly reports on income, family composition, and resources. However, the Secretary could waive this requirement if the State demonstrated that it would be cost-beneficial to do so. The only categories of recipients that could not be exempted were those with earned income or a recent work history.

In 1984, Public Law 98–369 revised these monthly reporting and retrospective budgeting requirements. Retrospective budgeting is now mandatory only for cases which file a monthly report. Monthly reporting is required for cases with earned income or a recent work history and whenever cost effective.

WORK REQUIREMENTS AND PROGRAMS

As a condition of AFDC eligibility, persons 16 years of age or older, who are receiving or applying for AFDC, must register for work and training. An individual may be exempt from the work registration requirement if he or she is unable to participate due to illness, incapacity, advanced age, full-time student status, remoteness from a work incentive (WIN) program site, the need to care for an ill or incapacitated member of the household, or working at least 30 hours per week. Also exempt is the parent caring for a child under 6 years of age; in a two-parent family, one parent is exempt if the second parent is registered for work.

Work registration is one component of the work incentive (WIN) program. All States operate a WIN program or a WIN demonstration program. In addition, the act permits States to offer several other employment programs. These are: job search; the community work experience program, and work supplementation. Some States are also operating grant diversion programs and other innovative work programs under AFDC demonstration authority.

The WIN program and WIN demonstrations

The WIN program was established in 1967 with the purpose of providing skill assessments, job training, and employment placements to help AFDC recipients to become self-supporting (see tables 2–3). At the Federal level, the program is jointly administered by the Department of Labor and the Department of Health and Human Services. A dual administrative structure is also in place at the State level, unless the State has elected to operate a WIN demonstration project. These projects, authorized by OBRA (Public Law 97–35), permit States to design an alternative to WIN, administered solely by State welfare agencies. The Department of Health and Human Services oversees these demonstrations. Currently, 26 States are operating WIN demonstrations. This is an increase of six States since the end of 1983. Table 4 identifies the WIN demonstration States and the date the demonstration began.

In fiscal year 1981, Federal funding for the WIN program totaled $365 million. By fiscal year 1984, Federal WIN funding had declined to $259 million. Funding limitations have restricted the States' ability to provide WIN services and training to AFDC recipients. As a result, many WIN registrants do not ever receive skills assessments, training, or job placements. As of September 1984, an estimated 1.5 million individuals registered with WIN, of a total AFDC caseload of 3.7 million families or 10.7 million individuals.

AFDC recipients who are selected for participation in WIN must accept available jobs, training or needed services to prepare them for employment. Refusal to do so without good cause will result in a sanction. In the case of two-parent families, the entire family is made ineligible. In the case of a single parent who refuses to work, payment to the nonworking adult is denied, but protective payments continue for the children. Protective payments are payments to a third party. Usually a relative, neighbor or friend will receive the benefit check on behalf of the child; sometimes the State caseworker will serve as protective payee.

Effective for tax years beginning after December 31, 1981, WIN registrants and AFDC recipients were added to the list of target groups for whom employers can receive a targeted jobs credit. The credit is equal to 50 percent of up to $6,000 in wages for the first year of employment and 25 percent of such wages for the second year. The targeted jobs credit ended December 31, 1985.

TABLE 2.—WIN PROGRAM DATA, FISCAL YEARS 1981, 1982, 1984–86

[Persons in thousands, dollars in millions]

	Fiscal year—				
	1981	[1] 1982	1984	1985	[6] 1986
New registrants [2]	1,156	903	1,016	1,013	870
Individuals entering unsubsidized employment [3]	310	204	354	340	260
Persons off welfare because employed [4]	169	144	178	170	130
6-month retention rate [5]	61.5	62.3	61	61	61
Welfare cost savings	$760	$521	NA	NA	NA
Appropriation	$365	$281	$259	$258	$203

[1] 11 States implemented in various months the WIN demonstration program during the latter part of fiscal year 1982.

[2] Registrations: FY 1984, 34 WIN regular, 18 WIN Demo States; FY 1985, 31 WIN regular, 23 WIN Demo States; FY 1986, 28 WIN regular, 26 WIN Demo States.

[3] Individuals entering unsubsidized employment whose employment was expected to last 30 days or more.

[4] Indicates number of individuals who completely went off welfare because of employment.

[5] Adjusted for GAO recommendations for fiscal year 1984 and beyond.

[6] Projections for 1986 using appropriated amounts as modified by Gramm-Rudman.

NA—not available.

Source: Data provided by U.S. Department of Labor; table compiled by Congressional Research Service.

TABLE 3.—WIN REGISTRANTS AND JOB ENTRANTS BY SELECTED CHARACTERISTICS, FISCAL YEAR 1983–85

[In percentages]

	Fiscal year 1983		Fiscal year 1984		Fiscal year 1985	
	Registrants	Job entrants	Registrants	Job entrants	Registrants	Job entrants
Sex:						
Male	30	38	27	37	21	28
Female	70	62	73	63	79	72
Ethnic group:						
White	41	57	38	55	46	58
Black	34	25	36	26	42	34
Hispanic	18	14	19	15	9	5
Other	7	4	7	4	3	3
Years of school completed:						
0 to 8	16	9	17	9	14	7
9 to 11	36	31	36	31	38	32
12	37	45	37	46	38	47
Over 12	11	15	10	14	10	14
Age:						
Under 22	12	10	10	8	12	10
22 to 44	77	84	77	85	78	84
45 or older	11	6	13	7	10	6
Registrant status:						
Mandatory	91	89	91	91	88	84
Percent of mandatory which are unemployed parent	(22)	(29)	(20)	(21)	(14)	(22)
Voluntary	9	11	9	9	12	16

Source: Data provided by U.S. Department of Labor; table compiled by Congressional Research Service.

Job search

The act permits States to require AFDC applicants and recipients to participate in a program of employment search beginning at the time of application. After an initial 8-week search period for applicants, AFDC recipients may be required to participate in 8 weeks of job search each year. This means that in the first year, up to 16 weeks of employment search may be required, with 8 weeks per year thereafter.

All WIN registrants, those exempt because they are remote from WIN sites, and applicants who appear to be WIN eligible may be required to participate in the job search program. At State option the job search requirement may be limited to certain groups or classes of individuals who are required to register for WIN. Transportation and other necessary costs incurred by participants must be reimbursed; States receive 50 percent Federal matching funds for these costs and may not use the job search requirement as a reason for delaying eligibility determinations or payments to those who are otherwise eligible. An individual who fails to comply with the job search requirement is subject to the sanctions described for the WIN program. Table 4 lists the States that have elected to require job search.

Community work experience program

Under authority granted by OBRA, States may operate community work experience programs (CWEP) if they so choose. These programs are commonly referred to as "workfare" and require adult AFDC recipients to perform some sort of community work, such as park beautification or as a teacher aide, in exchange for the AFDC benefit. The individual does not become a paid employee but, instead, works off the AFDC benefit. The number of hours a person works may not exceed their AFDC grant divided by the applicable minimum wage. CWEP participants do not receive the earned income disregards.

States may require CWEP participation by most AFDC recipients who are registered for WIN. However, unlike WIN, which exempts parents with children under the age of 6 from the work requirement, CWEP may require parents caring for children under age 6, but not under age 3, to participate if child care is available. As of January 1986, 24 States had opted to implement some kind of community work experience program. Most State workfare programs are not statewide. Table 4 identifies the States with a CWEP program.

Work supplementation and grant diversion

Finally, OBRA also permits States to operate work supplementation programs, in which AFDC may be used to subsidize a job for an AFDC recipient. In 1984, Congress amended the work supplementation provisions established by OBRA to give States greater flexibility. Under the original work supplementation program authorization, States could set their own eligibility requirements, adjust need standards and operate the program without regard to the regular statewideness and earned income disregard rules. Funds accrued from reducing the need standard or revising the earned income disregards were to be used to help defray the costs of subsidizing employment opportunities. However, the act limited Federal funding for an AFDC program which included a work supplementation component to that which would have been available to a State under its May 1981 State plan, adjusted for mandatory changes in Federal law and caseload changes within the State. Because of this restriction and the requirement that work supplementation jobs be limited to public or nonprofit organizations, States did not elect this option.

In 1984, the Deficit Reduction Act amended the work supplementation program requirements. Under the new law: (1) recipients may be placed in jobs offered by private as well as nonprofit employers; (2) States are permitted but not required to offer a $30 plus one-third earned income disregard for up to 9 months for participants; (3) Federal funding is limited to the aggregate of 9 months worth of unreduced welfare grants for each participant in the work supplementation program (or less if the person participates for fewer than 9 months); and (4) a State is permitted to develop its own method by which AFDC grants are diverted to wages and is not limited to prior law requirements. This will permit States to pool the benefits of AFDC recipients actually participating in the program rather than diverting the grant on an individual case basis.

A number of States have also requested and received waivers, under section 1115 of the act, which permit them to operate a similar program called grant diversion. In a grant diversion program, States may use the AFDC benefit as a wage subsidy to encourage employers to hire AFDC recipients. Private, for-profit employers may participate in grant diversion. The wage subsidy is for a limited period, usually no more than 6 months. In 1986, 14 States are operating grant diversion or work supplementation programs. Table 5 summarizes these State programs.

TABLE 4.—STATE PARTICIPATION IN OPTIONAL AFDC WORK PROGRAMS

[Data as of January 1986]

State	Date WIN demo implemented	CWEP	IV–A job search
Alabama		Implemented in 1 county April 1982; now operating in 3 counties.	
Arizona	June 1, 1982		
Arkansas	Sept. 30, 1982	Implemented in 1 county September 1982; now WIN Demo.	
California	Jan. 1, 1985	Implemented [1] in 1 county July 1982.	
Colorado		Implemented in 1 county October 1982; now operating in 25 counties.	
Connecticut	Oct. 1, 1985		Implemented for applicants and recipients with UP's as a priority, Oct. 1, 1985.
Delaware	Apr. 1, 1982		
Florida	Apr. 1, 1982		
Georgia	Jan. 1, 1985	Implemented in 10 counties August 1982; now operating in 9 counties.	To begin operation 2d quarter FY 1986 in 16 counties for applicants and recipients.
Idaho		Implemented in January 1982: statewide since April 1982,.	
Illinois	July 1, 1982	Implemented in 12 counties in February 1984; now operating in 16 counties.	
Indiana	Sept. 30, 1985		
Iowa	Sept. 30, 1983	Implemented for regular AFDC cases in 5 counties July 1982; currently operating in 49 counties for UP cases.	
Kansas		Implemented in 4 counties May 1983; currently operating in 19 counties.	Implemented for recipients only May 1983.
Maine	Apr. 1, 1982		Implemented for recipients only January 1983.
Maryland	Sept. 30, 1982		Implemented for applicants and recipients in 2 areas April 1982.
Massachusetts	Apr. 12, 1982		Implemented for applicants and recipients in 16 counties October 1982. Statewide for UP's only.
Michigan	Apr. 1, 1982	Implemented July 1982; now operating statewide.	

TABLE 4.—STATE PARTICIPATION IN OPTIONAL AFDC WORK PROGRAMS—Continued

[Data as of January 1986]

State	Date WIN demo implemented	CWEP	IV–A job search
Minnesota		Implemented in 3 counties March 1983; now operating in 8 counties.	
Missouri			Planning for FY 1986.
Nebraska	Sept. 30, 1982		
New Jersey	Oct. 1, 1982		Approved to begin operation October 1985 in 8 counties.
New Mexico		Demonstration in 1 county ended August 1985; planning to implement in FY 1986.	
New York	May 1, 1985	Approved [1] January 1982; now operating in 21 counties and in New York City.	Planning for FY 1986.
North Carolina		Implemented [1] in 6 counties July 1982; now operating in 12 counties.	
North Dakota		Implemented in 2 counties January 1982; now operating in 11 counties.	
Ohio		Implemented [1] in 4 counties March 1983; now operating in 8 counties.	Implemented for recipients only in 4 counties March 1983; now operating in 8 counties.
Oklahoma	Jan. 1, 1982	Implemented statewide January 1982.	Implemented statewide for applicants and recipients April 1983.
Oregon	Jan. 1, 1982		Implemented for applicants and recipients statewide December 1982.
Pennsylvania	Sept. 30, 1982	Implemented [1] statewide March 1983 as part of WIN demonstration.	
Rhode Island			Implemented for AFDC recipients and unemployed parents July 1985.
South Carolina		Implemented [1] in 2 counties May 1982.	Implemented for applicants and recipients statewide October 1985.
South Dakota	Apr. 1, 1982	Approved April 1982 and implemented in 40 counties; now operating statewide.	
Tennessee	Oct. 2, 1985		
Texas	Mar. 4, 1982		Implemented April 1983 for applicants and recipients.
Utah			Implemented for applicants and recipients statewide October 1984.
Vermont		Implemented statewide in 2d quarter FY 1985.	Implemented for UP applicants statewide April 1984.
Virginia	Jan. 1, 1983	Implemented [1] statewide as part of WIN demonstration January 1983.	Implemented statewide January 1983 for applicants and recipients.
Washington		Implemented [1] in 2 counties June 1982.	Implemented for applicants and recipients statewide October 1984
West Virginia	Sept. 27, 1982	Implemented [1] statewide for UP's January 1982; now operating statewide for UP and regular AFDC recipients as part of WIN demonstration.	
Wisconsin	Sept. 30, 1983		

---

[1] CWEP demonstration.

Source: Office of Family Assistance, Social Security Administration, January, 1986.

TABLE 5.—STATE PARTICIPATION IN GRANT DIVERSION DEMONSTRATION PROJECTS AND WORK SUPPLEMENTATION PROGRAMS

	AFDC for family of 3, 1985	Wage subsidy	Duration	Basis for subsidy/duration	Voluntary/mandatory	Location	Annual participation goal
Arizona	$293	30 percent nte $180.	6 months maximum	Flat 30 percent nte $180.	Mandatory	Statewide	220
Colorado	346	100 percent including other State/local funds.	8 week cycles	Fixed subsidy and duration (short term public employment).	Mandatory	1 county	500
Connecticut	572	Variable depending on wage and grant level.	4–6 months	Varies; 6 month maximum.	Voluntary	Hartford and New Britain areas..	170 participants; 55 job entries.
Florida	252	33 percent AFDC; 50 percent JTPA; 83 percent total.	3 months average (up to 1 yr.).	Flat 50 percent JTPA flat amount AFDC ($190); duration—DOT code.	Voluntary	44 counties	200
Maine	489	50 percent	6 months maximum after pre-vocational and field training.	Flat 50 percent; including JTPA contribution; duration may vary.	Voluntary	16 offices (majority of State).	330
Maryland	329	50 percent	4 month average	Flat 50 percent; duration may vary.	Mandatory	2 counties	140

TABLE 5.—STATE PARTICIPATION IN GRANT DIVERSION DEMONSTRATION PROJECTS AND WORK SUPPLEMENTATION PROGRAMS—Continued

	AFDC for family of 3, 1985	Wage subsidy	Duration	Basis for subsidy/duration	Voluntary/mandatory	Location	Annual participation goal
Massachusetts	505	Minimum 25%; maximum 50%.	Until employed	Varies; duration 9 months.	Voluntary	Statewide through 15 contractors.	1,200 Job entries.
Michigan	486	Maximum $400/month.	6 months	No more than 50% of gross wages; maximum 6 months.	Voluntary	8 counties	1,000
Minnesota	528	At least 50 percent from grant diversion plus other funds (WIN, JTPA, State).	6 months	Up to $330 from diverted grant; duration—DOT code.	Voluntary	27 counties	500
New Jersey	404	50 percent	5 months average (9 months maximum).	Flat 50 percent; duration may vary.	Voluntary	9 counties	500
New York	474	$250/month	6 months maximum	Flat amount ($250); duration may vary.	Mandatory	29 counties	500
Ohio	302	AFDC grant	18 months (FFP for 9 months; State match only for 9 months).	Entire grant diverted; duration may vary.	Voluntary	10 counties	300

Texas	184	$178/month	4 months grant diversion.	Flat amount ($178); duration may vary.	Voluntary	2 counties	200
Vermont	596	50 percent	Maximum 9 months Average 3.5 months.	Flat 50 percent; 6 month maximum.	Voluntary	Statewide	200

Source: Office of Family Assistance, Social Security Administration.

TREATMENT OF RESOURCES

Allowable resources are limited, by Public Law 97-35, to $1,000 (equity value) per family, excluding the home and one automobile if the family member's ownership interest does not exceed a limit chosen by the Secretary of Health and Human Services. HHS regulations set $1,500 as the equity value limit for the automobile and permit States to exclude from countable resources "basic items essential to day to day living," such as clothing and furniture. Previous regulations permitted States to adopt a counted resource limit as high as $2,000 per family member, but allowed States to consider the home and auto as counted resources.

AFDC FOR FAMILIES WITH UNEMPLOYED PARENTS (AFDC-UP)

The original Social Security Act permitted States to give AFDC only to needy children in one-parent homes, unless the second parent were incapacitated. Then, as now, most AFDC children lived in fatherless homes. For the first 25 years of the program, if a father lost his job and his family became needy, State AFDC programs were forbidden to help the family so long as he lived at home. In 1961, in an antirecession measure, the law was changed so that jobless fathers at home would not disqualify their families for welfare. Since May of that year States have been permitted to give AFDC to needy children of unemployed parents.

At first the States defined "unemployment," and some included fathers who worked as much as 35 hours a week, but since 1971 Federal regulations have specified that an AFDC parent can work no more than 99 hours a month to be classified as unemployed.

Congress in 1981 (Public Law 97-35) specified that the qualifying unemployed parent must be the family's principal earner. Almost half of the 54 jurisdictions with AFDC programs never have used the option to give AFDC cash benefits to the unemployed and partly employed. The number of AFDC-UP State programs in recent years has ranged from 23 (December 1982) to 29 (September 1979), and in January 1986 was 26. The States now participating contain about 71 percent of the Nation's total AFDC caseload, including most relatively high-benefit States. Expansion of AFDC eligibility to unemployed parents has been resisted, at least in some of the remaining States, because of the added costs.

During the 1970's, the AFDC-UP program served a monthly average of 120,000 families. In recent years the number of AFDC-UP families has risen sharply: fiscal year 1981, 209,000 families (monthly average); fiscal year 1982, 232,000; fiscal year 1983, 272,000, and fiscal year 1984, 288,000. In 1985, this dropped to 273,000. (See table 18.)

Enrollment in September 1985 (see table 6) was 246,337 families (1,074,170 persons), well below the peak number of 284,000 families in April 1983. AFDC-UP families in September 1985 averaged 4.4 persons, and they received payments averaging $518 per family, $119 per person.

TABLE 6.—AFDC–UP RECIPIENTS OF CASH PAYMENTS AND AMOUNTS OF PAYMENTS BY STATE, SEPTEMBER 1984 (INCLUDES NONMEDICAL VENDOR PAYMENTS) PRELIMINARY DATA

State	UP money payments	Number of families	Number of recipients	Average payment per—	
				Family	Recipient
California	$51,895,458	74,750	341,964	$694	$152
Connecticut	573,854	956	4,292	600	134
Delaware	30,623	102	436	300	70
District of Columbia	74,896	204	769	367	97
Hawaii	537,045	1,148	5,467	468	98
Illinois	5,574,612	14,856	65,230	375	85
Iowa	1,949,032	4,984	24,216	391	80
Kansas	639,752	1,721	7,237	372	88
Maine	462,010	986	4,248	469	109
Maryland	489,242	1,259	5,446	389	90
Massachusetts	1,302,440	1,636	7,234	796	180
Michigan	14,641,198	31,379	130,667	467	112
Minnesota	3,956,729	6,858	30,442	577	130
Missouri	1,111,679	3,591	15,684	310	71
Montana	197,414	470	1,950	420	101
Nebraska	537,431	1,376	5,921	391	91
New Jersey	1,769,000	4,400	17,200	402	103
New York	6,950,000	14,686	64,177	473	108
Ohio	12,590,956	35,211	146,532	358	86
Pennsylvania	5,048,046	12,984	54,672	389	92
Rhode Island	73,071	186	816	393	90
Vermont	257,507	525	2,184	490	118
Washington	2,836,449	5,578	23,533	509	121
West Virginia	4,447,210	10,240	42,651	434	104
Wisconsin	9,485,427	16,042	70,125	591	135
Guam	57,020	209	1,077	273	53
U.S. total	127,488,101	246,337	1,074,170	518	119

Source: Office of Family Assistance, Department of Health and Human Services, January 1986.

INTERACTION BETWEEN AFDC AND OTHER PROGRAMS

Medicaid

States must provide Medicaid to families receiving cash assistance under AFDC. The Deficit Reduction Act of 1984 (Public Law 98–369) also requires States to extend this categorically needy Medicaid coverage, at regular Federal matching rates, to the following groups meeting AFDC income and resource requirements: (1) first-time pregnant women from medical verification of pregnancy; (2) pregnant women in two-parent families where the principal earner is unemployed, from medical verification of pregnancy; and (3) children born on or after October 1, 1983, up to age 5, in two-parent families.

When families lose AFDC eligibility, categorical Medicaid eligibility also frequently ends, except under certain circumstances. Prior to 1984, categorical Medicaid eligibility was retained after the loss of AFDC eligibility only in the case of families whose earnings increased to the point that they would be ineligible even if the $30 plus one-third disregard were applied. These families were eligible for Medicaid for four additional months. If a family lost eligibility for AFDC because of the 4-month limit on the $30 plus one-third disregard, it also simultaneously lost categorical eligibility for Medicaid.

Public Law 98-369 requires States to provide 9 months of Medicaid coverage to families who lose eligibility for AFDC due to the termination of the one-third disregard. States have the option of extending this coverage for an additional 6 months in the case of a family that would be eligible for AFDC if the $30 plus one-third disregard were applied. Families who lose AFDC due to an increase in earnings continue to be eligible for 4 months of Medicaid benefits. In addition, the Child Support Enforcement Amendments of 1984 (Public Law 98-378) require States to provide 4 months of Medicaid coverage to AFDC families who lose eligibility due to receipt of child support payments.

Families who do not meet the criteria established in the 1984 amendments discussed above, and those who have exhausted these benefits, may also qualify for medically needy programs which are offered by 33 States and the District of Columbia. However, many State medically needy programs are less comprehensive than the basic Medicaid program and are of greatest benefit to families who incur large medical expenses.

Food stamps

Most AFDC families are also eligible for and participate in the food stamp program, which provides an important in-kind supplement to the cash assistance paid under AFDC. Although food stamp benefits are not counted in determining AFDC eligibility, the food stamp program does consider AFDC payments to be countable income and reduces the food stamp benefit by $0.30 for each dollar of countable cash income. This interaction between AFDC and the food stamp program has important financial implications for a State which desires to increase the income of its AFDC recipients. Because food stamps are reduced by $0.30 for each additional $1 of AFDC income, the State must expend $1.43 to obtain an effective $1 increase in AFDC recipients' total income. For a State with a 50 percent matching rate, the State must expend $0.72 to actually obtain a $1 increase in recipient income. This would be the typical situation for an AFDC recipient with no earnings.

The following example illustrates the interaction of these and other programs for a mother with two children at various earning levels. The example assumes the family lives in the State of Pennsylvania which pays AFDC benefits that are slightly above average; calculations are made after the mother has been working for 4 months and lost the one-third earned income disregard.

EARNINGS AND BENEFITS FOR A MOTHER WITH TWO CHILDREN WITH DAYCARE EXPENSES—AFTER 4 MONTHS ON JOB (JANUARY 1986)—(PENNSYLVANIA)

Earnings	EITC	AFDC [1]	Food stamps [2]	Medicaid	Taxes: Social security	Taxes: Federal income [3]	Taxes: State income	Work expenses [4]	"Disposable" income
0	0	$4,584	$1,509	Yes	0	0	0	0	[5] $6,093
$2,000	$220	4,174	1,251	Yes	$143	0	0	$1,060	[5] 6,442
$4,000	440	2,504	1,371	Yes	286	0	0	2,120	[5] 5,909
$5,000	550	1,664	1,431	Yes	358	0	$11	2,660	[5] 5,616
$6,000	550	944	1,485	Yes	429	$31	132	3,180	[5] 5,207
$7,000	489	275	1,460	Yes	501	141	154	3,180	[5] 5,248
$8,000	367	0	1,326	[6] Yes	572	251	176	3,180	[5] 5,514
$9,000	245	0	1,110	[6] Yes	644	371	198	3,180	[5] 5,962
$10,000	122	0	895	[7] No	715	491	220	3,180	6,411
$15,000	0	0	0	No	1,073	1,257	330	3,180	9,160
$20,000	0	0	0	No	1,430	2,159	440	3,180	12,791
$30,000	0	0	0	No	2,145	4,500	660	3,180	19,515
$50,000	0	0	0	No	3,003	11,026	1,100	3,180	31,691

[1] Assumes these deductions (standard plus prorated cost of care for one child): $1,810 at earnings of $2,000, $2,360 at $4,000, $2,630 at $5,000, $2,910 at $6,000, and $3,180 (maximum under AFDC law) at $7,000 and above. Note: After 1 year on job, AFDC benefits would decrease by $360 because of loss of $30 monthly deduction.

[2] Assumes these deductions (reflecting proration for dependent care at amounts assumed for AFDC): $1,176 at zero earnings, $1,726 at $2,000, $2,276 at $4,000, $2,546 at $5,000, and $2,826 at $6,000, and $2,844 (maximum) at $7,000 and above.

[3] Head of household rates in effect for 1986.

[4] Assumed to equal deductions presumed in AFDC calculations, except that AFDC standard deduction during first year of work ($105 monthly) is prorated for earnings below $6,000.

[5] In addition, the benefits from Medicaid could be added, but are not. Medicaid, in fiscal year 1984 cost about $1,717 for a 3-person AFDC family (national average).

[6] Family would qualify for Medicaid for 9 additional months under 1984 Federal law, which requires State to continue Medicaid that long for a family whose earnings removed them from AFDC, provided the family would have retained AFDC eligibility if one-third of residual earnings had been disregarded beyond 4 months.

[7] To regain Medicaid eligibility, family must spend down on medical expenses to State's medically needy limit ($5,100, as of November 1985).

Source: Congressional Research Service.

SSI and Social Security

In AFDC, Social Security benefits are treated as unearned income and thus AFDC benefits are reduced by $1 for each $1 of OASDI benefits. SSI benefits received by a potential member of an AFDC family are treated differently. This member (both a child or an adult receiving SSI benefits) is not regarded as a part of the AFDC unit. Thus his needs are not taken into account in determining the AFDC benefit level. At the same time, the income and resources of the SSI recipient are also ignored in determining the AFDC benefit.

CURRENT BENEFIT LEVELS AND TRENDS

Each State establishes a "need standard" (the income the State decides is essential for basic consumption items) and a "payment standard" (100 percent or less of the need level). Benefits are generally computed by subtracting countable income from the State's payment standard.

Maximum payments

Maximum AFDC payments vary sharply from State to State, as shown by tables 7 and 8. State payments for AFDC families of three with no countable income in January 1986 ranged from $118 in Alabama to $740 in Alaska. Table 7 presents the gross income limit, the need standard, and the maximum monthly potential AFDC and food stamp benefits for a one-parent family of three persons, as of January 1986.

The food stamp benefits are calculated by deducting from the family's AFDC benefit (the only cash income of the family) the maximum deductions allowed under food stamps for a nonaged, nondisabled family: a total of $237. This consists of a standard deduction of $98, given in all households, plus a deduction of $139 for excess shelter costs and/or dependent care costs.

If the family qualified only for the standard deduction, its food stamp benefits would be cut in most States by about $42. Table 7 shows combined maximum potential benefits of $564 to a New Jersey AFDC family of 3, including $160 in food stamps. The same family would receive only $523 in combined benefits, including $119 in food stamps, if it were credited only with the standard deduction. Food stamp program data show that most AFDC families do qualify for a deduction of some shelter costs.

As table 10 illustrates, during 1985, 38 States increased AFDC payments. Twenty-seven increased benefits by $15 or more per month. Sixteen jurisdictions had no payment increases. As a result of the increase, the median State benefit for a family of four increased from $379 to $399 per month or a real increase of 1.7 percent. This is the first real increase in AFDC benefits in the median state since 1976. Similarly, the median State benefit for a family of three increased from $327 to $346 per month or a real increase of 2.2 percent. Payment increases were the largest in Arizona ($71), West Virginia ($63), Nevada ($62), Massachusetts ($42), and California ($38). Among the 50 States and the District of Columbia, the average real increase was $4 per month, or an average real increase of 1.0 percent.

During 1984, 32 States plus the District of Columbia (33 jurisdictions) increased AFDC payments. Twenty-three increased payments over $15 per month while nine jurisdictions increased payments by less than $15 per month. Payment increases were the largest in Michigan ($78 per month), South Carolina ($55), New Hampshire ($40), California ($35), Maine the ($35), the District of Columbia ($33), and Vermont ($30). Nineteen States had no payment increases. One State plus the Virgin Islands (two jurisdictions) lowered payments.

During 1983, 22 States and two outlying areas increased AFDC benefits; five States reduced benefits. During 1982, 23 States and one jurisdiction increased benefits while three States and one jurisdiction lowered benefits.

TABLE 7.—GROSS INCOME LIMIT, NEED STANDARD, AND MAXIMUM MONTHLY POTENTIAL BENEFITS, AFDC AND FOOD STAMPS, ONE-PARENT FAMILY [1] OF THREE PERSONS, JANUARY 1986

State	Gross income limit (185 percent of need standard)	100 percent of "need"	Maximum AFDC grant [2]	Food stamp benefit [3]	Combined benefits	Combined benefits as a percent of 1985 poverty threshold [4]
Alabama	$710	$384	$118	$211	$329	46
Alaska	1,369	740	740	194	934	105
Arizona	1,149	621	293	194	487	68
Arkansas	433	234	192	211	403	56
California	1,086	587	587	106	693	97
Colorado	779	421	346	178	524	73
Connecticut	1,053	569	569	111	680	95
Delaware	551	298	298	192	490	69
District of Columbia	1,210	654	327	184	511	72
Florida	740	400	252	206	458	64
Georgia	677	366	223	211	434	61
Hawaii	866	468	468	288	756	92
Idaho	1,025	554	304	190	494	69
Illinois	1,258	680	341	179	520	73
Indiana	568	307	256	205	461	65
Iowa	919	497	381	167	548	77
Kansas	729	394	394	163	557	78
Kentucky	364	197	197	211	408	57
Louisiana	1,110	600	190	211	401	56
Maine	992	536	389	165	554	78
Maryland	842	455	[5] 329	201	530	74
Massachusetts	812	439	432	152	584	82
Michigan (Washtenaw County)	1,230	665	[5] 516	149	665	93
Michigan (Wayne County)	1,164	629	486	158	644	90
Minnesota	977	528	528	123	651	91
Mississippi	529	286	120	211	331	46
Missouri	577	312	274	199	473	66
Montana	792	428	354	175	529	74
Nebraska	971	525	525	124	649	91
Nevada	527	285	285	196	481	67
New Hampshire	720	389	389	165	554	78
New Jersey	747	404	404	160	564	79
New Mexico	477	258	258	204	462	65
New York (Suffolk County)	1,114	602	602	117	719	101
New York (New York City)	919	497	[5] 497	148	645	90

TABLE 7.—GROSS INCOME LIMIT, NEED STANDARD, AND MAXIMUM MONTHLY POTENTIAL BENEFITS, AFDC AND FOOD STAMPS, ONE-PARENT FAMILY [1] OF THREE PERSONS, JANUARY 1986—Continued

State	Gross income limit (185 percent of need standard)	100 percent of "need"	Maximum AFDC grant [2]	Food stamp benefit [3]	Combined benefits	Combined benefits as a percent of 1985 poverty threshold [4]
North Carolina	910	492	246	208	454	64
North Dakota	686	371	371	170	541	76
Ohio	1,206	652	302	191	493	69
Oklahoma	871	471	310	189	499	70
Oregon	734	397	[5] 397	198	595	83
Pennsylvania	1,136	614	382	167	549	77
Rhode Island	931	503	[5] 503	169	672	94
South Carolina	683	369	199	211	410	57
South Dakota	609	329	329	183	512	72
Tennessee	627	339	153	211	364	51
Texas	1,062	574	184	211	395	55
Utah	1,282	693	376	169	545	76
Vermont	1,634	883	583	107	690	97
Virginia	727	393	354	175	529	74
Washington	1,437	777	[5] 492	148	640	90
West Virginia	919	497	249	207	456	64
Wisconsin	1,186	641	544	118	662	93
Wyoming	666	360	360	174	534	75
Guam	490	265	265	311	576	81
Puerto Rico	333	180	90	NA	NA	NA
Virgin Islands	387	209	171	271	442	62
Median AFDC State [6]	779	421	346	178	524	73

---

[1] In most States these benefit amounts apply also to 2-parent families of 3 (where the second parent is incapacitated, or, as permitted in almost half the States, unemployed). Some, however, increase benefits for such families.

[2] In States with area differentials, figure shown is for area with highest benefit.

[3] Food stamp benefits are based on maximum AFDC benefits shown and assume deductions of $237 monthly ($98 standard household deduction plus $139 maximum allowable deduction for excess shelter cost and/or dependent care) in the 48 contiguous States and D.C. In the remaining five jurisdictions these maximum allowable food stamp deductions are assumed: Alaska, $410; Hawaii, $338, Guam, $366 and, Virgin Islands $188. If only the standard deduction were assumed, food stamp benefits would drop by $42 monthly in most of the 48 contiguous States and D.C. Maximum food stamp benefits from October 1985 through September 1986 are $211 for a family of three except in these 4 jurisdictions, where they are as follows: Alaska, $293; Hawaii, $327; Guam, $311; and Virgin Islands, $271.

[4] Except for Alaska and Hawaii, this column is based on the Census Bureau's 1985 poverty threshold for a family of three persons, $8,570, converted to a monthly rate of $714. For Alaska, this threshold was increased by 25 percent; for Hawaii, by 15 percent, following the practice of the Office of Management and Budget.

[5] In these States part of the AFDC cash payment has been designated as energy aid and is disregarded by the State in calculating food stamp benefits. Michigan disregards $74. New York disregards $53, the full

amount of a benefit boost enacted in 1981($30) and in 1985 ($23). Oregon disregards $118, Rhode Island disregards $127.85, Washington disregards $46, and Maryland disregards $59.

• Among 50 States and D.C.

Note.—Puerto Rico was deleted because it does not have a food stamp program, instead a cash nutritional assistance payment is given to recipients.

Source: Table prepared by CRS from information provided by a telephone survey of the States.

TABLE 8.—MAXIMUM AFDC BENEFITS, BY FAMILY SIZE, JANUARY 1986 [1]

State	2-person family	3-person family	4-person family	5-person family	6-person family
Alabama	$88	$118	$147	$177	$206
Alaska* [2]	657	740	823	906	989
Arizona [3]	233	293	353	412	472
Arkansas	158	192	224	254	283
California*	474	587	698	796	895
Colorado [2] [4]	272	346	420	498	574
Connecticut* [5]	459	569	664	749	837
Delaware*	220	298	349	433	494
District of Columbia	257	327	399	460	540
Florida [3]	194	252	298	344	388
Georgia	187	223	264	301	327
Hawaii* [6]	390	468	546	626	709
Idaho	245	304	344	385	418
Illinois [7]	250	341	385	450	505
Indiana	196	256	316	376	436
Iowa	322	381	443	490	545
Kansas* [8]	328	394	450	500	550
Kentucky*	170	197	246	288	325
Louisiana [9]	138	190	234	277	316
Maine [2]	289	389	489	589	689
Maryland	256	329	395	458	505
Massachusetts	358	432	505	579	654
Michigan:					
(Washtenaw County) [10]	428	516	618	712	846
(Wayne County) [10]	398	486	588	682	816
Minnesota* [2]	434	528	616	691	767
Mississippi	96	120	144	168	192
Missouri	219	274	320	363	404
Montana [3]	282	354	426	501	570
Nebraska *	280	350	420	490	560
Nevada* [2]	229	285	341	397	453
New Hampshire *	329	389	442	493	561
New Jersey *	307	404	465	526	587
New Mexico *	210	258	313	359	391
New York:					
(Suffolk County) * [11]	503	602	706	800	878

TABLE 8.—MAXIMUM AFDC BENEFITS, BY FAMILY SIZE, JANUARY 1986 [1]—Continued

State	2-person family	3-person family	4-person family	5-person family	6-person family
(New York City) * [11]	416	497	596	683	773
North Carolina	214	246	269	294	317
North Dakota* [2]	301	371	454	516	569
Ohio	248	302	374	437	486
Oklahoma [2]	240	310	384	450	514
Oregon*	338	397	482	566	645
Pennsylvania [12]	299	382	466	551	623
Rhode Island* [13]	407	503	574	646	727
South Carolina	158	199	239	280	320
South Dakota* [14]	286	329	371	413	455
Tennessee	117	153	186	217	251
Texas	158	184	221	246	284
Utah	301	376	439	500	550
Vermont [15]	489	583	651	736	785
Virginia [16]	294	354	410	488	518
Washington	397	492	578	666	756
West Virginia [3] [17]	201	249	312	360	413
Wisconsin [18]	463	544	649	745	806
Wyoming* [3]	320	360	390	450	510
Guam*	205	265	310	341	371
Puerto Rico [19]	66	90	114	138	162
Virgin Islands	126	171	215	259	304
Median State [20]	280	346	399	460	518

---

*These States pay 100 percent of the need standard.

[1] Maximum benefit paid for a family of given size with zero countable income. Family members include 1 adult caretaker.

[2] Alaska, Colorado, Maine, Minnesota, Nevada, North Dakota, and Oklahoma also have a children-only schedule.

[3] Arizona, Florida, Montana, West Virginia and Wyoming have two payment schedules, one that includes shelter expenses and one that does not.

[4] Colorado no longer has separate payment schedules for winter months and non-winter months.

[5] Connecticut has three rent regions. Data shown are from rent region A which has the highest rents.

[6] The Hawaii figures include shelter maximums of $215, $240, $265, $290, and $320 for an AFDC family with 2 recipients to 6 recipients, respectively.

[7] Illinois divides itself into 3 distinct areas with regard to payment schedules. Data shown are from the Cook County area, which includes Chicago.

[8] Kansas has a basic standard and a shelter standard. The shelter standard varies from area to area (i.e. from $76 monthly to $135 monthly). The shelter payment in Topeka and some of the other larger cities is $109 monthly. The figures shown include a shelter standard of $135 monthly.

[9] Louisiana has two payment schedules—one for urban areas, from which our data were taken, and one for rural areas.

[10] Michigan has varied shelter maximums. Shown are benefits for Washtenaw County (Ann Arbor) and Wayne County (Detroit).

[11] New York has payment schedules for each social service district. Shown are the Suffolk County and New York City amounts. The figures include energy payments.

[12] Pennsylvania has four regions. The figures in the table are from region 1, which has the highest benefits.

[13] Rhode Island has a winter and non-winter payment schedule. The figures in the table are from the winter schedule which lasts from November through April. The non-winter schedule lasts from May through October.

[14] The South Dakota figures include rent of $120 monthly and utilities equal to $43 monthly.

[15] Vermont has a base amount plus a housing maximum that depends on whether the recipient is living in a furnished or unfurnished apartment inside or outside of Chittenden County. The largest amount paid to a recipient with no other income equals 66.1 percent of the base amount plus 66.1 percent of the housing allowance. The table assumes that the recipient is in an apartment with heat and utilities, for which the rent is $278 (the amount allowed for an apartment with heat and utilities is $278 throughout the State).

[16] Virginia has three payment schedules. The figures shown are from area 3 which has the highest benefits.

[17] West Virginia has three payment schedules. The figures show the higher benefit levels.

[18] Wisconsin has two regions—one for urban areas, from which our data were taken, and one for rural areas.

[19] Puerto Rico pays 50 percent of need plus 50 percent of rent as paid. The figures assume rent at $20 a month. Officials estimate that $20 is the average amount allowed for rent.

[20] Among 50 States and D.C.

Source: Table prepared by the Congressional Research Service (CRS) on the basis of a telephone survey of the States.

Need and payment standards

To receive AFDC payments, a family must pass two income tests: first, a gross income test, and second, a counted ("net") income test. The gross income test is 185 percent of the State's need standard for the relevant family size; and it applies to both applicants and enrollees. This was increased by Congress from 150 percent of the need standard by Public Law 98-369 in 1984. No one with gross income that *exceeds* 185 percent of the need standard can receive AFDC. For applicants, the counted income test is 100 percent of the need standard, and it determines whether the family is deemed to be in "need" (see tables 7 and 8).

However, to be eligible for an actual payment, the family's counted income also must be below the State's payment standard, which in 29 jurisdictions is below the need standard.

Further, a $10 minimum payment rule imposed by Public Law 97-35 requires that counted income be at least $10 below the payment standard for an actual payment to be made.

Table 9 presents the change in the AFDC need standard from July 1970 to January 1986, by State. The increase in the median State from July 1970 to July 1975 (a period of 5 years) was 25 percent and from July 1975 to July 1980 it was 12 percent. From July 1980 to January 1986 (a period of 5½ years), the increase was 32 percent. Between July 1970 and January 1986, the Consumer Price Index (CPI) rose an estimated 281 percent.

Many States increased their need standards (but often not actual benefit levels) after passage of the gross income limit in 1981.

TABLE 9.—AFDC NEED STANDARD FOR A FOUR-PERSON FAMILY BY STATE FOR SELECTED YEARS

State	July 1970	July 1975	July 1980	January 1985 [1]	January 1986 [1]	Percent change 1970–86
Alabama	$230	$225	$240	$480	$480	108.7
Alaska	400	400	514	800	823	105.8
Arizona	256	282	282	282	748	192.2
Arkansas	176	290	273	273	273	55.1
California	432	389	591	660	698	61.6

TABLE 9.—AFDC NEED STANDARD FOR A FOUR-PERSON FAMILY BY STATE FOR SELECTED YEARS—Continued

State	July 1970	July 1975	July 1980	January 1985 [1]	January 1986 [1]	Percent change 1970–86
Colorado	235	264	351	510	510	117.0
Connecticut	330	403	553	636	664	101.2
Delaware	287	287	312	336	349	21.6
District of Columbia	280	349	481	798	798	185.0
Florida	223	230	230	468	468	109.9
Georgia	208	227	227	432	432	107.7
Hawaii	263	497	546	546	546	107.6
Idaho	272	395	421	627	627	130.5
Illinois	282	317	350	713	768	172.3
Indiana	322	363	363	363	363	12.7
Iowa	300	376	419	578	578	92.7
Kansas	267	353	390	422	450	68.5
Kentucky	264	235	235	246	246	−6.8
Louisiana	213	203	494	661	738	246.5
Maine	349	349	522	641	674	93.1
Maryland	302	314	326	520	546	80.8
Massachusetts	314	[1] 368	444	515	515	64.0
Michigan (Washtenaw County)	NA	NA	[1] 531	693	786	NA
Michigan (Wayne County)	263	399	501	658	750	185.2
Minnesota	299	385	486	611	616	106.0
Mississippi	232	277	252	327	327	40.9
Missouri	325	370	365	365	365	12.3
Montana	250	227	331	513	514	105.6
Nebraska	330	328	370	420	420	27.3
Nevada	317	329	341	341	341	7.6
New Hampshire	294	346	392	429	442	50.3
New Jersey	347	356	414	443	465	34.0
New Mexico	203	239	267	313	313	54.2
New York (Suffolk County)	NA	NA	[1] 563	676	706	NA
New York (New York City)	336	400	476	566	596	77.4
North Carolina	184	200	210	488	538	192.4
North Dakota	284	347	408	454	454	59.9
Ohio	258	431	431	757	809	213.6
Oklahoma	218	264	349	349	583	167.4
Oregon	281	452	[2] 441	468	482	71.5
Pennsylvania	313	349	395	749	749	139.3

TABLE 9.—AFDC NEED STANDARD FOR A FOUR-PERSON FAMILY BY STATE FOR SELECTED YEARS—Continued

State	July 1970	July 1975	July 1980	January 1985 [1]	January 1986 [1]	Percent change 1970–86
Rhode Island	263	319	389	[3] 547	[3] 574	77.6
South Carolina	198	217	229	229	444	124.2
South Dakota	300	329	361	371	371	23.7
Tennessee	217	217	217	300	413	90.3
Texas	239	187	187	621	691	189.1
Utah	271	397	572	802	809	198.5
Vermont	327	458	753	951	985	201.2
Virginia	279	346	400	422	457	63.8
Washington	303	370	536	904	914	201.7
West Virginia	265	332	332	332	623	135.1
Wisconsin	255	456	622	749	764	199.6
Wyoming	277	270	340	310	390	40.8
Guam	NR	NR	306	310	310	NA
Puerto Rico	132	132	126	228	228	72.7
Virgin Islands	NR	166	263	263	263	NA
Median State [5]	277	346	389	488	515	85.9

[1] CRS survey data.

[2] Oregon based benefits on the age of the child. The figure shown assumes all children are under 6.

[3] Winter rate (Nov.–Apr.). Summer rate was $440 in 1985 and $467 in 1986.

[4] Change calculated on basis of summer 1985 rate.

[5] Among 50 States and D.C.

NR=Not reported.

NA=Not available.

Note: Table compiled by the Congressional Research Service (CRS) on the basis of data from the Department of Health and Human Services and, where noted, from CRS itself.

Trends

Table 10 presents information on how the maximum AFDC benefit for a 4-person family with no income has grown from July 1970 to January 1986 by State. In current dollars, the maximum benefit of the median State climbed 19 percent from July 1970–July 1975, 33 percent from July 1975–July 1980, and 14 percent from July 1980–January 1986 (a period of 5½ years).

In constant dollars (after adjustment for inflation), in all but 3 States benefit levels failed to keep pace with inflation. The median decline in benefit levels adjusted for inflation from 1970 to 1986 was 33 percent.

These changes in maximum AFDC benefit levels are summarized in table 12 below. The median State's maximum AFDC benefit (guarantee) for a family of four rose from $221 in fiscal year 1970 to $399 in fiscal year 1985. In constant 1985 dollars, however, the median State's guarantee declined from $611 to $399; a decline of

35 percent. However from July, 1984 to July 1985 the AFDC median benefit increased by 2.6 percent.

Most AFDC families are eligible also for food stamps (until 1979 all were). As real AFDC benefits declined in the last dozen years, food stamp benefits rose to offset part of their losses. However, combined AFDC-food stamp benefits for a 4-person family without countable income in the median State dropped from $737 (1984 dollars) in 1971, when food stamps first operated under uniform national rules, to $542 in July 1984. This drop, which amounted to 26 percent, was almost wholly due to shrinkage in AFDC levels. Food stamp maximum benefits were virtually unchanged, since they were adjusted for food price inflation in all years except 1982.

TABLE 10.—AFDC MAXIMUM BENEFIT FOR A 4-PERSON FAMILY, BY STATE, SELECTED YEARS

	July 1970	July 1975	July 1980	January 1985 [1]	January 1986 [1]	Percent change in 1970–86 in constant dollars
Alabama	$81	$135	$148	$147	$147	−33
Alaska	375	400	514	800	823	−19
Arizona	167	183	244	282	353	−22
Arkansas	100	140	188	191	224	−17
California	221	349	563	660	698	+17
Colorado	235	264	351	420	420	−34
Connecticut	330	403	477	636	664	−26
Delaware	187	258	312	336	349	−31
District of Columbia	238	297	349	399	399	−38
Florida	134	170	230	284	298	−18
Georgia	133	153	193	245	264	−27
Hawaii	263	497	546	546	546	−23
Idaho	242	344	367	344	344	−48
Illinois	282	317	350	368	385	−50
Indiana	150	250	315	316	316	−22
Iowa	243	356	419	419	443	−33
Kansas	244	353	390	422	450	−32
Kentucky	187	235	235	246	246	−51
Louisiana	109	158	[1] 213	234	234	−21
Maine	163	219	352	465	489	+8
Maryland	196	242	326	376	395	−26
Massachusetts	314	[2] 368	[1] 419	463	505	−41
Michigan	NA	453	[1] 531	594	618	NA
(Detroit)	(263)	(399)	(501)	(564)	(588)	(−18)
Minnesota	299	385	486	611	616	−24
Mississippi	70	60	120	120	144	−24
Missouri	130	150	290	308	320	−9
Montana	228	227	331	425	426	−31
Nebraska	200	245	370	420	420	−23

TABLE 10.—AFDC MAXIMUM BENEFIT FOR A 4-PERSON FAMILY, BY STATE, SELECTED YEARS—Continued

	July 1970	July 1975	July 1980	January 1985[1]	January 1986[1]	Percent change in 1970–86 in constant dollars
Nevada	143	230	314	279	341	−12
New Hampshire	294	346	392	429	442	−45
New Jersey	347	356	414	443	465	−51
New Mexico	182	206	267	313	313	−37
New York	NA	[1]476	[1]563	676	706	NA
(New York City)	(336)	(400)	(476)	(566)	(596)	(−35)
North Carolina	158	200	210	244	269	−37
North Dakota	261	347	408	454	454	−36
Ohio	200	254	327	360	374	−31
Oklahoma	185	264	349	349	384	−23
Oregon	225	413	[1] [3]441	468	482	−21
Pennsylvania	313	349	381	444	466	−45
Rhode Island	263	319	389	547	[4]574	[5]−19
South Carolina	103	117	158	229	239	−14
South Dakota	300	329	361	371	371	−54
Tennessee	129	132	148	168	186	−47
Texas	179	140	140	201	221	−54
Utah	212	306	429	425	439	−24
Vermont	304	367	552	622	651	−21
Virginia	261	311	[1]305	379	410	−42
Washington	303	370	536	561	578	−30
West Virginia	138	249	249	249	312	−17
Wisconsin	217	403	529	636	649	+10
Wyoming	227	250	340	390	390	−37
Guam	NR	NR	307	310	310	NA
Puerto Rico	53	53	66	114	114	−21
Virgin Islands	NR	166	210	215	215	NA
Median State[6]	221	264	350	379	399	−33

[1] CRS survey data.

[2] Includes quarterly grant pro-rated monthly, (CRS survey).

[3] Oregon-based benefits on age of child. The figure assumes all children are under 6.

[4] Winter rate (Nov.–April). Summer rate was $467.

[5] Change calculated on basis of summer 1985 rate.

[6] Among 50 States and D.C.

NR=Not reported.
NA=Not available.

Note: Table compiled by the Congressional Research Service (CRS) on the basis of data from the Department of Health and Human Services and, where noted, from CRS itself. The last column of the table was computed using the CPI–U Consumer Price Index. A projection of 327.9 was assumed for January 1986.

TABLE 11. METHODS BY WHICH AFDC PAYMENTS ARE CALCULATED, JULY 1985

	AFDC Payment Amount[1]
Alabama	(30.75% × N) − CY
Alaska	N − CY
Arizona	N − CY
Arkansas	(82% × N) − CY
California	N − CY
Colorado	(N − CY) × 82.37%
Connecticut	N − CY
Delaware	N − CY
District of Columbia	(50% × N) − CY
Florida	(61% × N) − CY
Georgia	(60% × N) − CY
Hawaii	N − CY
Idaho	(55% × N) − CY
Illinois	(52% × N) − CY
Indiana	(90% × N) − CY
Iowa	(72.5% × N) − CY
Kansas	N − CY
Kentucky	N − CY
Louisiana	(33% × N) − CY
Maine	N − CY
Maryland	(72.3% × N) − CY
Massachusetts	(98% × N) − CY
Michigan	(91.5% × N) − CY
Minnesota	N − CY
Mississippi	(N − CY) × 75%
Missouri	(87.78% × N) − CY
Montana	(82.8% × N) − CY
Nebraska	N − CY
Nevada	N − CY
New Hampshire	N − CY
New Jersey	N − CY
New Mexico	N − CY
New York	N − CY
North Carolina	(50% × N) − CY
North Dakota	N − CY
Ohio	(44.5% × N) − CY
Oklahoma	(60% × N) − CY
Oregon	N − CY
Pennsylvania	(59.25% × N) − CY
Rhode Island	N − CY
South Carolina	N − CY
South Dakota	N − CY
Tennessee	(45% × N) − CY
Texas	(34% × N) − CY
Utah	(N − CY) × 54%
Vermont	(66.1% × N) − CY
Virginia	(90% × N) − CY
Washington	(61.4% × N) − CY
West Virginia	(50% × N) − CY

TABLE 11. METHODS BY WHICH AFDC PAYMENTS ARE CALCULATED, JULY 1985—Continued

	AFDC Payment Amount [1]
Wisconsin	(85% × N) — CY
Wyoming	N — CY
Guam	N — CY
Puerto Rico	(50% × N) — CY
Virgin Islands	(82% × N) — CY

[1] (N = need standard); (CY = countable income).

Source: Table prepared by the Congressional Research Service on the basis of a telephone survey of the States.

TABLE 12.—HISTORICAL TRENDS IN AVERAGE PAYMENT PER RECIPIENT AND PER FAMILY; AND MAXIMUM AND MEDIAN BENEFITS FOR A FAMILY OF FOUR; FOR SELECTED YEARS FROM 1970 TO 1985 [1]

	1970	1975	1980	1983	1984	1985
AFDC payments:						
Average monthly benefit per family	179	202	269	310	322	338
Average monthly benefit per person	46	61	93	106	110	115
Median State benefit in July for a family unit of 4 with no income	221	264	350	368	376	399
Median State benefit in July in constant 1985 dollars [1]	611	525	456	397	389	399
Maximum State benefit in July for a family unit of 4 with no income	375	497	563	625	660	800
Maximum State benefit in July in constant 1985 dollars [1]	1,037	988	733	674	684	800

[1] The constant dollar numbers were calculated using the CPI-U monthly Consumer Price Index series.

Source: Office of Research and Statistics, Social Security Administration and the Congressional Research Service.

FINANCING

The Federal Government pays at least 50 percent of each State's benefit payments and more than 70 percent in eleven States. Federal matching for AFDC varies from State to State, depending, within limits, on per capita income. Under matching formulas in the law, about 55 percent of each AFDC benefit dollar is paid by the Federal Government and 45 percent is paid by the States, some of which require local governments to share costs. The Federal share varies among States, ranging from 50 percent to 78.42 percent, and it is inversely related to State per capita income. The Federal Government pays 50 percent of administrative costs in all States.

The Federal share of a State's AFDC payments is determined by the matching formula specified for medicaid in title XIX of the Social Security Act. (States may choose an alternate formula, specified for AFDC only in title IV of the act, but in early fiscal year 1985 none did so. Unlike the medicaid formula, this "regular" AFDC formula places a ceiling on average benefits eligible for Federal funds.)

The medicaid cost-sharing formula used to determine the State and Federal shares of AFDC benefit payments is as follows:

State share = State per capita income squared/national per capita income squared × 45 percent

Federal share = 100 percent—State share (with a minimum of 50 percent and a maximum of 83 percent)

For the outlying areas, Guam, Puerto Rico, and the Virgin Islands, 75 percent Federal matching is provided for AFDC benefits, but the law imposes a ceiling on Federal funds.

The Federal share of benefits is shown in table 13.

TABLE 13.—FEDERAL SHARE OF THE AFDC PROGRAM,[1] FISCAL YEARS 1978 THROUGH 1987

[In percent]

State	1978–79[2]	1980–81[3]	1982–83[4]	1984–85[5]	1986–87[6]
Alabama	72.58	71.32	71.13	72.14	72.30
Alaska	50.00	50.00	50.00	50.00	50.00
Arizona (37.9 in fiscal year 1980)			59.87	61.21	62.28
Arkansas	72.06	72.87	72.16	73.65	73.83
California	50.00	50.00	50.00	50.00	50.00
Colorado	53.71	53.16	52.28	50.00	50.00
Connecticut	50.00	50.00	50.00	50.00	50.00
Delaware	50.00	50.00	50.00	50.00	50.00
District of Columbia	50.00	50.00	50.00	50.00	50.00
Florida	56.55	58.94	57.92	58.41	56.16
Georgia	65.82	66.76	66.28	67.43	66.05
Guam (Federal funds limited)	[7] 50.00	[8] 75.00	75.00	75.00	75.00

TABLE 13.—FEDERAL SHARE OF THE AFDC PROGRAM,[1] FISCAL YEARS 1978 THROUGH 1987—Continued

[In percent]

State	1978–79[2]	1980–81[3]	1982–83[4]	1984–85[5]	1986–87[6]
Hawaii	50.00	50.00	50.00	50.00	51.00
Idaho	63.58	65.70	65.43	67.28	69.36
Illinois	50.00	50.00	50.00	50.00	50.00
Indiana	57.86	57.28	56.73	59.93	62.82
Iowa	51.96	56.57	55.35	55.24	58.90
Kansas	52.35	53.52	52.50	50.67	50.00
Kentucky	69.71	68.07	67.95	70.72	70.23
Louisiana	70.45	68.82	66.85	64.65	63.81
Maine	69.74	69.53	70.63	70.63	68.86
Maryland	50.00	50.00	50.00	50.00	50.00
Massachusetts	51.62	51.75	53.56	50.13	50.00
Michigan	50.00	50.00	50.00	50.70	56.79
Minnesota	55.26	55.64	54.39	52.67	53.41
Mississippi	78.09	77.55	77.36	77.63	78.42
Missouri	60.66	60.36	60.38	61.40	60.62
Montana	61.10	64.28	65.34	64.41	66.38
Nebraska	53.46	57.62	58.12	57.13	57.11
Nevada	50.00	50.00	50.00	50.00	50.00
New Hampshire	62.85	61.11	59.41	59.45	54.92
New Jersey	50.00	50.00	50.00	50.00	50.00
New Mexico	71.84	69.03	67.19	69.39	68.94
New York	50.00	50.00	50.88	50.00	50.00
North Carolina	67.81	67.64	67.81	69.54	69.18
North Dakota	50.71	61.44	62.11	61.32	55.12
Ohio	55.46	55.10	55.10	55.44	58.30
Oklahoma	65.42	63.64	59.91	58.47	57.60
Oregon	57.29	55.66	52.81	57.12	61.54
Pennsylvania	55.11	55.14	56.78	56.04	56.72
Puerto Rico (Federal funds limited)	[7] 50.00	[8] 75.00	75.00	75.00	75.00
Rhode Island	57.00	57.81	57.77	58.17	56.33
South Carolina	71.93	70.97	70.77	73.51	72.70
South Dakota	63.80	68.78	68.19	68.31	67.82
Tennessee	68.88	69.43	68.53	70.66	70.20
Texas (67.2 in fiscal year 1980)				54.37	53.56
Utah	68.98	68.07	68.64	70.84	72.62
Vermont	68.02	68.40	68.59	69.37	67.06
Virgin Islands (Federal funds limited)	[7] 50.00	[8] 75.00	75.00	75.00	75.00

TABLE 13.—FEDERAL SHARE OF THE AFDC PROGRAM,[1] FISCAL YEARS 1978 THROUGH 1987—Continued

[In percent]

State	1978–79[2]	1980–81[3]	1982–83[4]	1984–85[5]	1986–87[6]
Virginia	57.01	56.54	56.74	56.53	53.14
Washington	51.64	50.00	50.00	50.00	50.06
West Virginia	70.16	67.35	67.95	70.57	71.53
Wisconsin	58.53	57.95	58.02	56.87	57.54
Wyoming	53.44	50.00	50.00	50.00	50.00

---

[1] The Federal share of the AFDC program is calculated by the same formula used to determine the Federal share of medicaid costs except in States that elect an alternate formula or have no medicaid program. Texas chose the alternate formula until July 1, 1983. Arizona used the alternate formula until the first quarter of fiscal year 1983, when it was deemed qualified to use the medicaid formula for the first time. The Federal medicaid matching rates are 60.81 and 61.47 for Arizona for fiscal years 1978–79 and 1980–81. For Texas they are 60.66, 58.35, and 55.75, for fiscal years 1978–79, 1980–81, and 1982–83, respectively.

[2] Effective Oct. 1, 1977, through Sept. 30, 1979.

[3] Effective Oct. 1, 1979, through Sept. 30, 1981.

[4] Effective Oct. 1, 1981, through Sept. 30, 1983.

[5] Effective Oct. 1, 1983, through Sept. 30, 1985.

[6] Effective Oct. 1, 1985 through Sept. 30, 1987.

[7] Public Law 95–600 changed the Federal share for fiscal year 1979 from 50 to 75 percent.

[8] Public Law 96–272 made permanent the 75-percent matching rate for AFDC effective Oct. 1, 1979. For medicaid the matching rate remains 50 percent.

Source: Department of Health and Human Services.

FEDERAL AND STATE EXPENDITURES

In fiscal year 1985 AFDC benefits totaled $14.9 billion. Of total fiscal year 1985 benefits, $8.0 billion or 54 percent was paid by the Federal Government. Tables 14 and 15 present State and Federal expenditures for selected years.

At the start of fiscal year 1985, 10 States required their localities to pay some portion of benefit costs. These States were:

California, Colorado, Indiana, Minnesota, Montana, New Jersey, New York, North Carolina, North Dakota, and Ohio.

Table 14 presents historical data on the amount of total Federal and State AFDC benefit payments to single-parent families (including two-parent families where one adult is incapacitated), unemployed parent families, and under the emergency assistance program. Benefit payments under current law are projected to be $15.5 billion in fiscal year 1986 and $17.0 billion by fiscal year 1991.

Table 15 presents Federal and State expenditures for AFDC in selected years. Administrative costs have risen much faster than total benefits since 1971. Administrative costs equaled 9.6 percent of 1971 benefits and are estimated to equal 12.7 percent of 1986 benefits.

Table 16 gives State-by-State fiscal year 1985 data on average monthly caseloads, benefit payments, State-local administrative costs, and administrative costs per family. Administrative costs ranged from $164 per family in Mississippi to $1,191 in Idaho.

TABLE 14.—FEDERAL AND STATE AFDC BENEFIT PAYMENTS UNDER THE SINGLE PARENT, UNEMPLOYED PARENT, AND EMERGENCY ASSISTANCE PROGRAMS: FISCAL YEARS 1970 TO 1991

[In millions of dollars]

Fiscal year	Single parent [1] (1)	Unemployed parent (2)	Emergency assistance (3)	Total, columns 1, 2, and 3 [2] (4)	Child support collections (5)	Total, columns 4 minus 5 [3] (6)	Column 6 expressed in 1985 constant dollars [4] (7)
1970	3,851	231	14	4,095	0	4,095	11,580
1971	4,993	412	22	5,427	0	5,427	14,587
1972	5,972	422	43	6,436	0	6,436	16,740
1973	6,459	414	38	6,912	0	6,912	17,369
1974	6,881	324	44	7,249	0	7,249	16,697
1975	7,791	362	70	8,223	0	8,223	16,910
1976	8,825	525	66	9,415	286	9,129	17,421
1977	9,420	617	70	10,107	423	9,684	17,344
1978	9,624	565	76	10,264	472	9,792	16,452
1979	9,865	522	81	10,468	597	9,871	15,039
1980	10,847	693	109	11,650	603	11,047	14,674
1981	11,769	1,075	127	12,971	671	12,300	14,815
1982	11,601	1,256	95	12,951	786	12,165	13,734
1983	12,136	1,471	121	13,727	880	12,847	13,977
1984	12,759	1,612	132	14,502	1,000	13,502	14,041
1985	13,443	1,505	157	15,105	1,089	14,016	[6] 14,016
1986 [5]	13,735	1,560	161	15,456	1,199	14,257	NA
1987 [5]	13,287	1,545	164	14,996	1,293	13,703	NA
1988 [5]	14,273	1,549	167	15,989	1,374	14,615	NA
1989 [5]	14,637	1,547	170	16,354	1,461	14,893	NA
1990 [5]	15,005	1,531	173	16,709	1,553	15,156	NA
1991 [5]	15,324	1,521	176	17,021	1,651	15,370	NA

[1] Includes payments to two-parent families where one adult is incapacitated.

[2] Total AFDC benefits of which a portion are reimbursed by child support collections. Total may not add due to rounding.

[3] Net AFDC benefits—Gross benefits less those reimbursed by child support collections.

[4] Net AFDC benefits in constant 1985 dollars.

[5] Administration projections under current law. Collection of all quality control sanctions is assumed.

[6] Does not reflect the impact of the $50 per month disregard of child support payments in calculating AFDC benefits.

NA—Not available.

Source: Data provided by the Office of Family Assistance, Social Security Administration (February 1986).

TABLE 15.—TOTAL, FEDERAL, AND STATE AFDC EXPENDITURES: FISCAL YEARS 1970 TO 1991

[In millions of dollars]

Fiscal year	Federal share		State share		Total	
	Benefits	Administrative	Benefits	Administrative	Benefits	Administrative
1970	2,187	[1] 572	1,443	186	4,082	[1] 881
1971	3,008	271	2,469	254	5,477	525
1972	3,612	[2] 240	2,942	241	6,554	NA
1973	3,865	313	3,138	296	7,003	610
1974	4,071	379	3,300	362	7,371	740
1975	4,625	552	3,787	529	8,412	1,082
1976	5,258	541	4,418	527	9,676	1,069
1977	5,626	595	4,762	583	10,388	1,177
1978	5,701	631	4,890	617	10,591	1,248
1979	5,825	683	4,954	668	10,779	1,350
1980	6,448	750	5,508	729	11,956	1,479
1981	6,928	835	5,917	814	12,845	1,648
1982	6,922	878	5,934	878	12,857	1,756
1983	7,332	915	6,275	915	13,607	1,830
1984	7,707	876	6,664	822	14,371	1,698
1985	8,030	934	6,918	885	14,948	1,793
1986 [3]	8,311	998	6,984	952	15,295	1,950
1987 [3]	7,705	1,055	7,127	994	14,832	2,049
1988 [3]	8,516	1,091	7,306	1,033	15,822	2,124
1989 [3]	8,722	1,126	7,462	1,067	16,184	2,193
1990 [3]	8,922	1,140	7,614	1,095	16,536	2,235
1991 [3]	9,100	1,154	7,745	1,116	16,845	2,270

[1] Includes expenditures for services.

[2] Administrative expenditures only.

[3] Administration projection under current law. Collection of all quality control sanctions is assumed.

Note.—Benefits do not include emergency assistance payments or reimbursement from child support enforcement collections. Foster care payments are included from 1971 to 1980. Beginning in fiscal year 1984, the costs of certifying AFDC households for food stamps are shown in the food stamp appropriation, U.S. Department of Agriculture. Administrative figures include training expenditures.

NA—Not available.

Source: Office of Family Assistance, Social Security Administration (February 1986).

TABLE 16.—AVERAGE MONTHLY NUMBER OF AFDC FAMILIES, TOTAL BENEFIT PAYMENTS, TOTAL ADMINISTRATIVE COSTS, AND ADMINISTRATIVE COST PER AFDC FAMILY BY STATE, FISCAL YEAR 1985 (PRELIMINARY DATA)

State	Average monthly number of AFDC families (thousands)	Total benefit payments[1] (thousands)	Total administrative costs (thousands)	Administrative cost per AFDC family
Alabama	52.3	$70,642	$17,033	$325
Alaska	6.3	42,112	6,124	964
Arizona	25.5	65,320	8,922	350
Arkansas	21.9	41,251	8,914	407
California	553.0	3,307,517	295,874	535
Colorado	27.7	100,195	19,417	701
Connecticut	41.8	223,176	19,148	459
Delaware	9.0	26,430	4,904	543
District of Columbia	22.4	76,618	21,411	955
Florida	96.8	247,918	50,611	523
Georgia	84.8	197,856	34,893	411
Hawaii	16.9	78,597	5,845	346
Idaho	6.2	19,183	7,441	1,191
Illinois	240.1	869,137	70,836	295
Indiana	57.0	153,233	24,934	437
Iowa	39.9	159,612	13,940	349
Kansas	22.8	85,080	8,611	377
Kentucky	59.4	138,098	15,639	263
Louisiana	76.2	154,102	28,435	373
Maine	19.8	78,142	5,231	265
Maryland	66.4	241,319	27,353	412
Massachusetts	86.4	416,892	58,987	683
Michigan	225.2	1,197,887	114,756	510
Minnesota	51.3	308,300	20,826	406
Mississippi	51.9	60,699	8,493	164
Missouri	66.5	195,338	23,158	348
Montana	7.9	32,107	3,713	471
Nebraska	15.3	58,337	6,320	414
Nevada	4.7	11,689	3,253	689
New Hampshire	5.4	20,401	4,126	762
New Jersey	124.5	500,380	60,422	485
New Mexico	18.0	51,124	10,316	574
New York	373.2	2,021,411	283,200	759
North Carolina	63.5	160,891	29,359	462
North Dakota	4.4	18,174	2,807	634
Ohio	224.4	759,927	66,910	298

BEST COPY AVAILABLE

TABLE 16.—AVERAGE MONTHLY NUMBER OF AFDC FAMILIES, TOTAL BENEFIT PAYMENTS, TOTAL ADMINISTRATIVE COSTS, AND ADMINISTRATIVE COST PER AFDC FAMILY BY STATE, FISCAL YEAR 1985 (PRELIMINARY DATA)—Continued

State	Average monthly number of AFDC families (thousands)	Total benefit payments[1] (thousands)	Total administrative costs (thousands)	Administrative cost per AFDC family
Oklahoma	28.0	87,765	30,098	1,074
Oregon	27.8	106,461	21,344	766
Pennsylvania	186.3	750,589	124,634	669
Rhode Island	15.8	73,414	5,963	378
South Carolina	43.5	89,481	12,271	282
South Dakota	5.8	17,837	3,643	623
Tennessee	57.0	89,344	17,156	301
Texas	120.2	227,719	51,662	430
Utah	12.9	50,797	8,115	630
Vermont	7.8	38,169	4,477	574
Virginia	58.4	169,587	28,337	485
Washington	64.5	331,851	46,999	729
West Virginia	33.6	85,257	8,111	241
Wisconsin	95.5	556,381	18,384	193
Wyoming	3.8	14,170	2,162	567
Guam	1.6	4,560	532	327
Puerto Rico	53.5	62,953	17,000	318
Virgin Islands	1.3	2,781	424	315
U.S. total	3,686.3	14,948,211	1,793,471	487

[1] Excludes foster care payments.

Source: Office of Family Assistance, Social Security Administration, January 1986.

THE 1985 CASELOAD AND RECENT TRENDS

Tables 17, 18, and 6 present recent caseload and benefit data. In fiscal year 1985, the share of persons receiving AFDC due to unemployment of the principal earner (AFDC-UP) was 9.9 percent, down from 10.2 percent in the previous year. This compares with a 5.6 percent share for such recipients in 1971.

Average benefits per AFDC family (2.9 persons) were $338 in fiscal year 1985, compared with $321 a year earlier. Average benefits per AFDC-UP family (4.4 persons) were $518, compared with $479 a year earlier.

TABLE 17.—FISCAL YEAR 1985 CASELOAD AND ASSISTANCE PAYMENTS

[Preliminary data]

State	Total assistance payments (thousands)	Average monthly caseload (thousands)	Average monthly recipients (thousands)	Average payment per	
				Family	Person
Alabama	$70,642	52.3	151.0	$112	$39
Alaska	42,112	6.3	15.9	553	221
Arizona	65,320	25.5	72.1	214	76
Arkansas	41,251	21.9	64.2	157	54
California	3,307,517	553.0	1,618.9	498	170
Colorado	100,195	27.7	79.0	301	106
Connecticut	223,176	41.8	121.7	445	153
Delaware	26,430	9.0	24.2	244	91
District of Columbia	76,618	22.4	58.4	285	109
Florida	247,918	96.8	271.4	213	76
Georgia	197,856	84.8	238.5	194	69
Hawaii	78,597	16.9	50.7	387	129
Idaho	19,183	6.2	17.2	256	93
Illinois	869,137	240.1	734.6	302	99
Indiana	153,233	57.0	165.4	224	77
Iowa	159,612	39.9	122.7	333	108
Kansas	85,080	22.8	67.4	311	105
Kentucky	138,098	59.4	159.6	194	72
Louisiana	154,102	76.2	230.3	168	56
Maine	78,142	19.8	57.[illegible]	329	114
Maryland	241,319	66.4	198.2	303	101
Massachusetts	416,892	86.4	235.4	402	148
Michigan	1,197,887	225.2	690.6	443	145
Minnesota	308,300	51.3	151.7	500	169
Mississippi	60,699	51.9	154.8	97	33
Missouri	195,338	66.5	196.9	245	83
Montana	32,107	7.9	22.5	339	119
Nebraska	58,337	15.3	44.2	318	110
Nevada	11,689	4.7	13.7	206	71
New Hampshire	20,401	5.4	14.3	314	119
New Jersey	500,380	124.5	367.0	335	114
New Mexico	51,124	18.0	50.6	237	84
New York	2,021,411	373.2	1,112.0	451	151
North Carolina	160,891	63.5	165.5	211	81
North Dakota	18,174	4.4	12.4	342	122
Ohio	759,927	224.4	672.5	282	94
Oklahoma	87,765	28.0	81.8	261	89
Oregon	106,461	27.8	73.9	319	120

TABLE 17.—FISCAL YEAR 1985 CASELOAD AND ASSISTANCE PAYMENTS—Continued

[Preliminary data]

State	Total assistance payments (thousands)	Average monthly caseload (thousands)	Average monthly recipients (thousands)	Average payment per	
				Family	Person
Pennsylvania	750,589	186.3	560.8	336	112
Rhode Island	73,414	15.8	43.7	388	140
South Carolina	89,481	43.5	119.8	172	62
South Dakota	17,837	5.8	16.4	254	91
Tennessee	89,344	57.0	155.0	131	48
Texas	227,719	120.2	362.9	158	52
Utah	50,797	12.9	38.0	328	111
Vermont	38,169	7.8	22.4	408	142
Virginia	169,587	58.4	153.6	242	92
Washington	331,851	64.5	177.9	429	155
West Virginia	85,257	33.6	105.8	212	67
Wisconsin	556,381	95.5	290.7	486	159
Wyoming	14,170	3.8	10.0	310	118
Guam	4,560	1.6	5.7	233	67
Puerto Rico	62,953	53.5	172.8	98	30
Virgin Islands	2,781	1.3	4.2	172	55
U.S. total	14,948,211	3,686.3	10,818.3	338	115

Source: Office of Family Assistance; Social Security Administration, January 1986.

Table 18 presents the average monthly number of families and individuals receiving AFDC benefits since 1970. In fiscal year 1985 AFDC family enrollment was 3.7 million. This includes 10.8 million recipients of whom approximately 65 percent were children. Of these AFDC families 261,000 were two-parent families eligible because of an unemployed parent.

TABLE 18.—HISTORICAL TRENDS IN AFDC ENROLLMENTS AND AVERAGE PAYMENTS

Fiscal year	Average monthly number of (in thousands)					Average monthly benefit	
	Families [1]	Recipients [1]	Children [1]	Unemployed parent families	Unemployed parent recipients	Family	Recipient
1970	1,909	7,429	5,494	78	420	$178	$46
1971	2,532	9,556	6,963	143	726	180	48
1972	2,918	10,632	7,698	134	639	187	51
1973	3,123	11,038	7,965	120	557	187	53
1974	3,170	10,845	7,824	95	434	194	57
1975	3,342	11,067	7,928	101	451	210	63
1976	3,561	11,339	8,156	135	593	226	71
1977	3,575	11,108	7,818	149	659	242	78
1978	3,528	10,663	7,475	127	567	250	83
1979	3,493	10,311	7,193	113	504	257	87
1980	3,642	10,597	7,320	141	612	274	94
1981	3,871	11,160	7,615	209	881	277	96
1982	3,569	10,431	6,975	232	976	300	103
1983	3,651	10,659	7,051	272	1,144	311	106
1984	3,726	10,868	7,155	288	1,224	322	110
1985	3,685	10,794	7,163	261	1,129	338	115
1986 [2]	3,691	10,790	NA	255	1,102	345	118
1987 [2]	3,711	10,822	NA	249	1,072	351	120
1988 [2]	3,735	10,872	NA	244	1,052	357	123
1989 [2]	3,754	10,905	NA	240	1,031	363	125
1990 [2]	3,779	10,967	NA	234	1,005	368	127
1991 [2]	3,800	11,021	NA	230	987	372	129

[1] Includes unemployed parent families and, for 1971–81, foster care children.

[2] Projection under current law.

Source: Office of Family Assistance and Office of Family Resources, Social Security Administration.

The number of AFDC *families* rose more than 50 percent from 1971 to 1981, reaching a high of 3.9 million (monthly average) in 1981. In 1982, after OBRA took effect, the number dropped 8 percent, but in 1983 it rose 2.5 percent, and in 1984, the number of families rose 2 percent. In 1985 it dropped again, by 1 percent.

The number of AFDC *recipients* tells a different story and reflects shrinking family size. Recipient numbers reached a high in 1976, when they averaged 11.3 million, up 16 percent from the 1971 count. Enrollment in fiscal year 1981 totaled 11.2 million. Recipient numbers fell 7 percent in 1982, but rose 2 percent in both 1983 and 1984. A slight decline occurred in 1985.

The number of one-parent AFDC families fell significantly in 1982, and then turned upward. However, the number of two-parent families (those aided because of the unemployment of a parent) began a steep climb in 1980 that lifted 1984 numbers to a record peak.

CHARACTERISTICS OF AFDC FAMILIES

This section describes the characteristics of AFDC families, using two main sources of data. For years through 1979, the sources were individual surveys of similar design specially conducted to gather information from agency case files. For 1982 and later years, data were derived from information obtained in the quality control case samples.

As noted before, Congress in 1981 changed AFDC rules significantly. The new rules primarily affected families with earnings and children living with their stepparents. For most such families, benefits were ended or reduced. In 1984, Congress again revised the AFDC program, restoring eligibility to some of the families affected by the 1981 changes.

Table 19 shows that the share of AFDC families with earnings fell more than 50 percent from March 1979 to 1983, from 12.8 percent to 5.7 percent. The share of families with no reported income other than AFDC climbed from 80.6 percent to 86.8 percent in 1983. Moreover (table 22), the average amount of support contributed by stepparents (and in 1982 and thereafter deemed from them) more than doubled, from $63 per family in March 1979 to $159 in May 1982. Data for 1983 were not available.

Table 19 also shows the trend in selected characteristics of AFDC families from 1969 to 1983. During this period, the average family size decreased from 4.0 persons to 3.0; the percent of families with no other income than AFDC rose more than 50 percent; and the share of AFDC households with nonrecipient members climbed.

TABLE 19.—AFDC CHARACTERISTICS, 1969–83

	May 1969	January 1973	May 1975	March 1977	March 1979	1983 [7]
Average family size (persons)	4.0	3.6	3.2	3.1	3.0	3.0
Incidence of parent (percent):						
Absent	[1] 77.1	[2] 80.5	[2] 83.3	[2] 84.7	[2] 86.9	88.2
Not married to the mother	[1] 27.9	[2] 31.5	[2] 31.0	[2] 33.8	[2] 37.8	48.1
Incidence of working mothers (percent):						
With full-time jobs	8.2	9.8	10.4	8.4	8.7	1.5
With part-time jobs	6.3	6.3	5.7	5.3	5.4	3.4
Actively seeking work, or in school or training	10.0	11.5	12.2	13.8	12.8	2.0
Percent of families:						
With earnings	[3] NA	16.3	14.6	12.9	12.8	5.7
With no reported income other than AFDC	56.0	66.9	71.1	[4] 78.2	[4] 80.6	86.8
Median number of months on AFDC [5]	23.0	27.4	31.0	26.3	29.3	26.0
Race (percent): [6]						
White, other than Hispanic	NA	38.0	39.9	41.4	40.4	41.8
Black	45.2	45.8	44.3	43.0	43.1	43.8
Hispanic	NA	13.4	12.2	12.2	13.6	12.0
American Indian	1.3	1.1	1.1	1.1	1.4	1.0
Asian			.5	.4	1.0	1.5

TABLE 19.—AFDC CHARACTERISTICS, 1969–83—Continued

	May 1969	January 1973	May 1975	March 1977	March 1979	1983*
Other and unknown	4.8	1.7	2.0	1.9	.4	NA
Incidence of households (percent):						
Living in public housing	[7] 12.8	13.6	14.6	14.9	NA	[9] 10.0
Participating in food stamp or donated food program	52.9	68.4	75.1	74.0	75.1	[10] 83.0
Including nonrecipient members	33.1	34.9	34.8	NA	NA	36.9

[1] Calculated on the basis of total number of families.

[2] Calculated on the basis of total number of children; on the basis of total number of families, the January 1973 percentages would be 83 for absent fathers and 34.7 for unmarried-to-mother fathers.

[3] 13.7 percent of mothers had earnings in 1969 survey month, compared with 14.4 percent in 1973, 13.7 percent in 1975, and 12.3 percent in 1977.

[4] State collected child support directly beginning in 1975, removing one source of non-AFDC income.

[5] Since most recent enrollment.

[6] Excludes Puerto Rico and the Virgin Islands for 1969. For October 1982–September 1983, 12.6 percentage points where race is unknown were allocated proportionately across all categories.

[7] As of 1971. Item not available for 1969.

[8] Data are for October 1982—September 1983. All percentages are based on an average monthly caseload of 3,572,000. Hawaii and the territories are not included.

[9] Public housing projects only. An additional 5.9 percent of households receive HUD subsidies.

[10] Does not include D.C., Louisiana or Virginia.

NA—Not available.

*Note.—There is a special problem in matching current recipient characteristics data for 1983 with those of previous years because the data sources differ. The sources of characteristics data through 1979 were individual surveys of similar design specially conducted to gather recipient characteristics from agency case files. In contrast, the current data were derived from the information available from the quality control case sample.

Source: Congressional Research Service based on AFDC recipient characteristic studies, conducted by the Department of Health and Human Services for 1969–1979 data and the Office of Family Assistance, HHS for 1983 data.

Among the 1984 changes made by Congress is the provision which for the first time establishes a standard definition of the AFDC assistance unit. Under this new policy, the parent(s) in the home and all minor related children must be included in the AFDC unit except SSI recipients. According to the May 1982 quality control data, 46 percent (1.531 million cases) of the total AFDC caseload lives with others who are not part of the AFDC unit. Some of these families were affected by the standard filing unit provision enacted in 1984. The 1982 quality control data also show that:

—Most of the mothers who had been excluded from the AFDC unit but were collecting AFDC for their children were 21 years of age or older (79 percent). Only 16 percent of the mothers who had excluded themselves from the AFDC unit were under the age of 20.

—Most of the mothers who were living with their children but excluded from the AFDC unit were living with other relatives. These relatives could be grandparents, siblings, or other relatives of the AFDC children. Only 6 percent of the mothers were living with nonrelatives.

—The 212,000 cases where the mother was in the home but excluded from the AFDC unit were distributed as follows: (1) in 5 percent of the cases another adult was included in the AFDC unit; (2) in 93 percent of the cases, only children formed the AFDC unit. These children lived with other adults (64,000 cases), other adults and children (37,000 cases), stepparents (36,000), or adults who were receiving SSI (62,000 cases).

—In 1.038 million cases the mother was included in the AFDC unit but the family was living with other people. These cases are distributed as follows: (1) in 516,000 cases the persons outside the AFDC unit were adults; (2) in 254,000 cases adults and children were in the household but not in the assistance unit; (3) in 142,000 cases children were the only other persons in the household who were not receiving AFDC; (4) in 85,000 cases the adults and children who had been excluded from the AFDC unit were receiving SSI; and (5) in 42,000 cases, the persons outside the AFDC unit were stepparents.

—The cases in which only children had been excluded from the unit or in which a parent and child(ren) had been excluded were far more likely to be located in the South. For example, 44.6 percent of the cases adding a child to the unit were in the South but only 26.2 percent of the total caseload lived in the South.

Table 20 indicates that the share of AFDC families with no more than two children rose from 70.4 percent in 1979 to 74.1 percent in 1982 and then declined to 73.2 percent in 1983. The share of AFDC families with a mother (or other caretaker relative) younger than 19 declined from 3.8 percent to 3.3 percent during these 4 years and the percentage of families reporting no father in the home rose from 84.7 percent to 89.8 percent.

TABLE 20.—CHARACTERISTICS OF FAMILIES ENROLLED IN AFDC, MARCH 1979, MAY 1982, AND OCTOBER 1982–SEPTEMBER 1983 [1]

	Total caseload		
	March 1979 [2]	May 1982 [3]	1983 [4]
Average payment per case	$251	$299	$313
Number of child recipients (percent): [5]			
1	42.3	43.4	43.4
2	28.1	30.7	29.8
3	15.6	15.2	15.2
4	7.9	6.0	6.2
5	3.5	2.0	2.4
6 or more	2.5	1.6	1.5
Unknown or no children	NA	NA	1.5
Number of adult recipients (percent):			
0	(6)	12.4	8.5
1	(6)	80.5	81.3
2 or more	(6)	7.2	10.2
Age of mother (or other caretaker relative) (percent):			
18 or under	3.8	3.2	3.3
19 to 24	25.7	25.6	26.1

TABLE 20.—CHARACTERISTICS OF FAMILIES ENROLLED IN AFDC, MARCH 1979, MAY 1982, AND OCTOBER 1982–SEPTEMBER 1983 [1]—Continued

	Total caseload		
	March 1979 [2]	May 1982 [3]	1983 [4]
25 to 29	19.6	20.1	21.7
30 to 39	24.9	25.5	25.5
40 to 49	10.5	9.8	9.8
50 or over	3.6	3.5	4.5
Unknown	3.7	(*)	0.3
No mother (or other caretaker relative) in assistance unit	8.3	12.2	8.7
Age of youngest child (percent):			
0 to 2	(7)	35.3	38.3
3 to 5	(7)	23.9	22.2
6 to 17	(7)	40.1	38.1
18 to 20	(7)	0.7	0.4
Unknown or missing	NA	NA	1.0
Father's relationship to youngest child (percent):			
No father	84.7	90.6	89.8
Natural father	9.6	NA	NA
Adoptive father	0.0	NA	NA
Stepfather	5.6	NA	NA
Mean length of time on AFDC (months)	44.7	NA	42.3

---

[1] See note on table 19 about difference in data sources for 1979 and 1982.

[2] Source: Committee staff tabulation of March 1979 AFDC recipients' data base.

[3] Source: Office of Family Assistance, Social Security Administration.

[4] Data are for October 1982-September 1983 and do not include Hawaii and the territories. Source: Office of Family Assistance, Social Security Administration.

[5] All percentages relate to families (AFDC cases).

[6] 1979 data tabulation related to percent of families with specified number of adult nonrecipients: 0, 67.2 percent; 1, 16.1; and 2 more, 16.7.

[7] Age brackets were different in 1979 study: Unborn, 0.5 percent of families; 0–3 years, 42.2; 4–6, 19.2; 7–18, 36.8; 19–20, 0.5; unknown, 0.8.

*Less than 0.5 percent.

NA—Not available.

Percentages may not equal to 100 percent due to rounding.

Table 21 presents data about the employment status of the AFDC mother (or other caretaker relative), information about her status with the work incentive program (WIN), and data about tenure on AFDC.

The table indicates that the share of mothers (or other caretaker relatives) working full time declined from 8 percent in 1979 to 1.5 percent in 1983; the share working part-time fell from 5.0 percent to 3.4 percent in the same period.

The table also indicates that the share of families who received benefits for more than 5 years (since the most recent opening of their case) declined from 26.9 percent in 1979 to 23.7 percent in 1983.

TABLE 21.—EMPLOYMENT AND WIN STATUS OF AFDC MOTHERS, TENURE OF AFDC FAMILIES, MARCH 1979, MAY 1982, AND OCTOBER 1982–SEPTEMBER 1983 [1]

	Percent of total caseload		
	March 1979 [2]	May 1982 [3]	1983
WIN status of mother (or other caretaker):			
No mother or (caretaker) mother not receiving payment	18.0	12.2	[4] 8.7
Mandatory registrant	20.6	25.9	28.8
Voluntary registrant	4.1	1.6	1.8
Ill or incapacitated	4.1	3.0	3.8
Child or other care	43.1	40.6	43.0
No WIN project	7.2	10.5	NA
Other	2.9	6.2	10.8
Unknown	NA	NA	3.2
Employment status of mother (or other caretaker):			
No mother (caretaker)	8.3	12.2	8.7
Full-time work, 35 or more hours per week	8.0	1.3	[5] 1.5
Part-time work, fewer than 35 hours per week	5.0	4.3	[5] 3.4
Incapacitated	6.0	NA	4.1
At school	2.6	NA	2.0
On layoff	0.5	NA	0.8
Seeking work	9.1	NA	NA
Other—needed at home or not actively seeking work	60.5	82.2	79.5
Number of months on AFDC since most recent opening:			
1 to 6 months	16.4	20.0	18.9
7 to 12 months	12.5	12.4	13.1
13 to 24 months	16.7	16.2	16.6
25 to 36 months	11.4	12.6	12.0
37 to 60 months	15.3	14.2	15.4
61 plus months	26.9	23.5	23.7
Unknown	0.8	1.1	.3

[1] See note on table 19 about difference in data sources for 1979 and 1982.

[2] Source: Committee staff tabulation of March 1979 AFDC recipients' data base.

[3] Source: Office of Family Assistance, Social Security Administration.

[4] Data are for October 1982–September 1983 and do not include Hawaii or the territories. Source: Office of Family Assistance, Social Security Administration.

[5] Full-time work, 30 hours or more per week; part-time work, fewer than 30 hours per week.

Table 22 presents data on income sources of AFDC families. It indicates that the share of AFDC families with earnings from the mother (or other caretaker relative) or from the spouse of the caretaker relative declined from 12.6 percent in March 1979 to 5.4 percent in 1983. Further, according to the table, the average amount earned dropped, from $382 to $237 for mothers with earnings; and from $323 to $269 for fathers (or spouses of caretaker relatives) with earnings.

TABLE 22.—INCOME SOURCES OF AFDC FAMILIES,[1] MARCH 1979,[2] MAY 1982,[3] AND OCTOBER 1982-SEPTEMBER 1983 [4]

Income source	Percentage of caseload with income type			Average amount for those with income type		
	March 1979	May 1982	1983	March 1979	May 1982	1983
Earned income:						
Mother (or caretaker relative)	12.0	5.3	4.9	$382	$261	237
Father (or spouse of caretaker relative)	0.6	0.4	0.5	323	244	269
Children (14+)	0.1	(5)	0.2	206	398	197
Other adults	0.1	NA	0.1	265	NA	279
Public service	0.1	NA	NA	246	NA	NA
OASDI	3.1	2.5	2.2	134	145	226
Veterans' benefits	0.4	NA	NA	128	NA	NA
Other pensions	0.4	0.4	0.4	143	134	196
Unemployment compensation	0.7	1.0	1.2	238	255	277
Workmen's compensation	0.1	(4)	NA	237	200	NA
Stepparent contributions or deemed income (1982)	0.2	0.3	NA	63	159	NA
Contributions from other persons	0.6	0.9	NA	72	79	NA
Other cash income	1.9	2.5	[6] 5.1	81	251	165
In-kind income	0.4	NA	NA	71	NA	NA
Total	19.4	NA	13.2	299	NA	238

---

[1] See note on table 19 about differences in data sources for 1979 and 1982.

[2] Source: Committee staff tabulation of March 1979 AFDC recipients' data base.

[3] Source: Office of Family Assistance, Social Security Administration.

[4] Data are for October 1982-September 1983 and do not include Texas, Hawaii and the territories. All percentages are based on an average monthly caseload of 3,543,000.

[5] Less than 0.05 percent.

[6] Includes Federal SSI, State SSI, general assistance, income from assets and property and other unearned income.

NA—not available.

Table 23 provides data on the share of AFDC families whose benefits were based on less than their gross cash income. That is, it summarizes information about disregarded (uncounted) income.

The table shows a decline in the share of families receiving the work incentive disregard (exclusion of the first $30 earned monthly plus one-third of the rest of earnings). This work incentive bonus was repealed in 1981, except for the first 4 months of a job. It indicates that the average amount of child care costs disregarded declined from $101 monthly in March 1979 (for those with such costs) to $86 in May 1982 and rose to $96 in 1983.

TABLE 23.—INCOME OF AFDC FAMILIES NOT COUNTED BY THE PROGRAM,[1] MARCH 1979,[2] MAY 1982,[3] AND OCTOBER 1982–SEPTEMBER 1983 [4]

Disregards	Percent of caseload with disregard			Average amount for those with disregard		
	March 1979	May 1982	1983	March 1979	May 1982	1983
Optional $5 disregard	1.1	(5)	(5)	$6	(5)	(5)
$30 and one-third of earned income	12.5	[6] 2.5	1.8	147	[6] $62	$90
Child care	3.9	1.3	1.0	101	86	96
Other work expenses	8.4	5.2	4.4	95	54	59
Cases with child care and other work expenses [7]	3.0			100		
Child support	0.1	(8)	NA	93	NA	NA
Other	1.6	0.4	NA	77	100	NA
Total	13.8	NA	4.6	250	NA	113

[1] See note on table 19 about differences in data sources for March 1979 and May 1982.

[2] Source: Committee staff tabulation of March 1979 AFDC recipients' data base.

[3] Source: Office of Family Assistance, Social Security Administration.

[4] All percentage based on an average monthly caseload of 3,543,000. Data do not include Hawaii and the Territories. Data are for October 1982–September 1983.

[5] Repealed by 1981 law.

[6] Limited to 4 months' duration by 1981 law.

[7] In these cases, there was insufficient information in the data file to distinguish between child care and other work expenses.

[8] Less than 0.05 percent.

NA—Not available.

TURNOVER WITHIN THE AFDC CASELOAD

A 1983 study of AFDC families[2] found that although most "spells" of AFDC are relatively short, most persons enrolled in the program at any point in time are in the midst of spells that last at least 8 years. The study reported that half of AFDC spells lasted less than two years, but that 50.2 percent of the persons enrolled at a point in time were in the midst of very long episodes of AFDC and that such long-term recipients used most of the resources of the program.

In the period covered by the study, which preceded passage of the Omnibus Budget Reconciliation Act of 1981 (OBRA), AFDC benefits were phased out gradually as family earnings rose. Because of the work incentive bonus (disregard of the first $30 in monthly earnings plus one-third of the rest) and the deduction of all reasonable work expenses, the gross earnings limit for AFDC eligibility in most States was about double the maximum benefit paid to a family without countable income.

---

[2] Bane, Mary Jo, and Ellwood, David T., The Dynamics of Dependence; The Routes to Self-Sufficiency. Prepared for the U.S. Department of Health and Human Services under contract No. HHS-100-82-0038, June 1983. (Prepared by Urban Systems Research and Engineering, Inc., Cambridge, Mass.)

The rate of return to the program by those who ended a spell of AFDC was relatively high. Overall, 34 percent eventually resumed welfare. Among those who left welfare because of increased earnings, 40 percent later returned for another AFDC spell. AFDC returns also were common among those who left AFDC via marriage; 40 percent of these ex-welfare mothers also eventually returned to the rolls.

The study shed light on the routes into and out of AFDC before passage of OBRA. It reported:

Beginnings of AFDC spells.—Three-fourths of all spells began with a relationship change that created a female-headed family with children. Almost half the AFDC spells started after a wife became a female family head (by loss of the male head and his earnings due to absence, divorce, separation, death). Another 30 percent began when a never-married, divorced, or separated woman acquired a child.

In contrast to changes in family composition, changes in earnings were a relatively minor cause of resorting to welfare. The study found that only 12 percent of AFDC spells could be traced to a drop in family earnings.

Endings of AFDC spells.—The most common route out of AFDC was by way of a change in family structure. Some 46 percent of endings occurred this way—32 percent when a female head became a wife and 14 percent when the household no longer contained a child under 18.

Increased earnings were much more significant in ending AFDC than decreased earnings were in starting it. Some 39 percent of endings occurred this way—32 percent when the female head herself earned more money and 7 percent when another member of the family increased earnings.

Poverty status.—About 40 percent of those who ended AFDC spells were poor after their exit. About 52 percent of those whose AFDC eligibility ended because they no longer had an eligible child were poor in the following year. For those who earned their way off AFDC, about 32 percent were poor in the year after their welfare spell; their poverty reflected the sub-poverty gross income eligibility limits of AFDC in many States.

THE 1984 AMENDMENTS

In June of 1984, Congress enacted H.R. 4170, the Deficit Reduction Reduction Act of 1984 (Public Law 98-369). This new law, which took effect on October 1, 1984, includes 22 AFDC amendments and an income and asset verification amendment which affected several programs, and are summarized below:

1. Gross income limitation.—Under prior law, eligibility for AFDC was limited to families with gross incomes at or below 150 percent of the State standard of need. The act increases the gross income limitation to 185 percent of the State standard of need.

2. Work expense deduction.—Under prior law, States were required to disregard the first $75 of monthly earnings for full-time work expenses; a lower deduction applied to part-time workers. The act requires States to disregard the first $75 monthly for full and part-time workers.

3. Continuation of $30 disregard.—Under prior law, the $30 plus one-third of remaining earnings disregard was limited to 4 months. The act retains the 4-month limit on the one-third disregard but extends the $30 disregard for an additional 8 months for a total of 12 months.

4. Work transition status.—Under prior law, a family who lost AFDC eligibility due to the 4-month limit on the earnings disregard, simultaneously lost categorical eligibility for Medicaid. The act provides that families who lose AFDC because of the termination of the earnings disregard will be eligible for 9 months of Medicaid coverage. At State option, an additional 6 months of Medicaid coverage can be provided. In addition, families who lost AFDC eligibility prior to enactment of the work transition will also be eligible for Medicaid under certain specified circumstances.

5. Clarification of earned income provisions.—The act clarifies that the term "earned income" as used in the AFDC program means the gross amount of earnings, prior to the taking of payroll or other deductions.

6. Burial plots, funeral agreements and certain property.—Under prior law, burial plots and funeral agreements were counted toward the $1,000 asset limit. The act exempts from the AFDC resources limitation, burial plots and funeral agreements. An AFDC policy on real property that is similar to SSI policy is also established.

7. Federal matching for Community Work Experience Program (CWEP) expenses.—Under prior law, States were required to reimburse a CWEP participant for necessary transportation and other expenses. Federal matching for this reimbursement was by regulation, limited to $25 per month. The act requires States to reimburse a CWEP participant for costs incurred if the State is unable to provide directly any transportation or day care services. Reimbursement of day care expenses is limited to those determined by the State to be reasonable, necessary and cost effective up to $160 per month per child.

8. Retrospective budgeting and monthly reporting.—Under prior law, monthly reporting and retrospective budgeting were required for all AFDC cases; however, the Secretary of Health and Human Services could waive the monthly reporting requirement if it was not cost effective to require the report. The act mandates retrospective budgeting for cases filing a monthly report. Monthly reporting is required when cost effective; cases with earned income and recent work history must report monthly.

9. Earned income tax credit (EITC).—Under prior law, States were required to assume that an individual was receiving the earned income tax credit on an advance basis regardless of when or if it was received. The act requires States to count the EITC only when actually received.

10. Demonstrations of one-stop service delivery.—The act authorizes from 3 to 5 Federally-assisted demonstration projects designed to test the effectiveness and efficiency of integrating the delivery of human services.

11. Work requirements for pregnant women.—The act adds to those who are exempt from work registration, any woman who is in the third trimester of pregnancy.

12. Recalculation of lump sum income.—Under prior law, States could only recalculate ineligibility due to receipt of lump sum income if a life threatening circumstance occurred. The act allows States to recalculate the ineligibility period under other specified circumstances. Ineligibility may be recalculated if: (1) an event occurs which would have changed the amount of AFDC paid; (2) the income becomes unavailable for reasons beyond the family's control; and/or (3) the family incurs, becomes responsible for and pays medical bills which offset the lump sum income.

13. Overpayment recoupment.—Under prior law, States were required to attempt to recover all benefit overpayments. The act permits States to waive overpayment recovery when it is not cost effective. States will be permitted to automatically waive overpayments of less than $35. Larger overpayments must be collected unless the State determines, after attempting to collect the overpayment, that the cost to collect would exceed the amount owed.

14. Protective payments.—Under prior law, States were required to make protective payments to a third party when a parent on AFDC failed to meet certain statutory procedural requirements. The act permits States to make the payment to the parent if, after all reasonable efforts have been made, a suitable protective payee cannot be found.

15. Eligibility requirements for aliens.—Under prior law the income of an individual who sponsors a non-refugee alien was deemed to be available to the alien for 3 years after entry into the United States. The act establishes a similar policy for aliens who are sponsored by organizations or agencies.

16. Fugitive felons.—The act permits States to disclose the current address of an AFDC recipient if a law enforcement agency provides the correct social security number and demonstrates that the recipient is a fugitive felon.

17. Payment schedule for back claims.—The act establishes a payment schedule for court-ordered reimbursements and certain other back claims owed by the Federal Government to the States that have been allowed or are pending.

18. Work supplementation program.—The act modifies the existing work supplementation program to provide additional flexibility to States in operating grant diversion programs in which all or part of the AFDC grant can be used to subsidize a job.

19. Disregard of in-kind income.—The act extends, until October 1, 1987, the disregard of certain in-kind assistance provided on the basis of need.

20. Standard filing unit/child support payments.—There was no requirement in prior law that parents and all siblings be included in the AFDC unit. The act requires States to include in the filing unit the parents and all minor siblings living with a dependent child who applies for or receives AFDC. In addition, a monthly disregard of $50 of child support received by a family is established.

21. CWEP work for Federal agencies.—The act permits Federal agencies or offices to serve as community work experience program (CWEP) sites under the same requirements as apply to other sites.

22. Earned income of full-time students.—For purposes of applying the gross income limitation, the act allows States to disregard the income of an AFDC child who is a full-time student.

23. Income and eligibility verification procedures.—Under present law, IRS wage information furnished by employers to IRS is available to State welfare agencies for use in their AFDC and food stamp programs, and to the Social Security Administration for administering the SSI program. However, IRS unearned income information (filed by a financial institution or corporation with respect to payments to individuals in the form of interest, dividends, etc.) is not available to Federal and State agencies for use in the administration of these programs. Quarterly wage information from the unemployment compensation program is available to State welfare agencies in most States.

Public Law 98-369 provides for the IRS to disclose return information with respect to unearned income to Federal, State, or local agencies administering AFDC, SSI, Medicaid, food stamps, and the cash assistance programs administered in Puerto Rico, Guam, and the Virgin Islands.

Disclosure can only be made to agencies that meet the requirements to safeguard this confidential information against disclosure, and verification of the unearned income information is required prior to taking action to reduce or terminate benefits.

The provision also replaces existing statutory provisions relating to use (for purposes of AFDC) of return and other wage information and use of social security numbers, by adding a new section to the Social Security Act requiring States to have in effect an income and eligibility verification system for use in administering the AFDC, Medicaid, unemployment compensation, and food stamp programs (and the adult assistance programs in the territories). State agencies must request and make use of: (1) wage and other income information available under the Internal Revenue Code; and (2) quarterly wage information. Each State is required as of September 30, 1988, to maintain a quarterly wage reporting system, although not necessarily through its unemployment compensation system.

The income and eligibility system requires use of standardized data formats to facilitate exchange of information, for the purpose of identifying and reducing ineligibility and incorrect payments.

IMPACT OF 1981 PROGRAM CHANGES

The Omnibus Budget Reconciliation Act of 1981 (OBRA) imposed a gross income limit for AFDC eligibility (150 percent of a State's need standard), capped the deduction for child care costs ($160 monthly per child), set a standard deduction for other work expenses ($75 monthly), and ended the work incentive disregard for working recipients after their first 4 months on a job. These provisions affected AFDC parents with jobs by reducing or ending their benefits. They also had potential effects on welfare mothers without jobs by reducing the gains possible from work, and on nonwelfare mothers with low earnings. Under previous law, a person in the latter group could increase total income by decreasing or ending earnings, enrolling in AFDC, and then resuming work. OBRA also required States to count part of the income of a stepparent as available to an AFDC child.

Former HHS Assistant Secretary Rubin reported in testimony that 408,000 families lost eligibility and 299,000 lost benefits as a result of the OBRA changes. The changes saved the Federal and State governments about $1.1 billion in 1983. This implies an average loss in benefits per family of $1,555 per year.

HHS evaluation of the 1981 AFDC amendments

A study commissioned by the Department of Health and Human Services[3] and prepared by Research Triangle Institute compared a national sample of AFDC families before and after OBRA.

Major findings include:

—Earners in the 1981 sample (after OBRA) were more likely than 1980 earners (before OBRA) to be off the AFDC rolls a year later. The share of September 1981 earners no longer on welfare in October 1982 was 55 percent. Of September 1980 earners, 28 percent no longer were enrolled in the program a year later.

—The rates of return to AFDC after leaving the rolls were "similar" for the two groups.

—For both groups, approximately 18 percent of AFDC recipients who began the base year (1980 or 1981) with earnings no longer had a job at the end of the year and were receiving AFDC. This suggested that a "normal" rate of job loss occurred in both years and that OBRA had not induced a widespread change in behavior.

—Of the September 1981 earners who no longer received an AFDC payment a year later, approximately 87 percent were working. Their average monthly earnings were $704. (Because of a low response rate to the follow-up survey of former AFDC recipients, however, the report said these data "must be interpreted cautiously.")

—The unemployment rate seemed to have relatively little effect on AFDC participation and on earnings of AFDC recipients.

GAO evaluation of the 1981 amendments

At the request of the House Ways and Means Committee, the U.S. General Accounting Office conducted an in-depth evaluation of the effect of the 1981 amendments on individual AFDC families in five cities: Boston, Dallas, Memphis, Milwaukee, and Syracuse. GAO examined case records, analyzed 10 years of HHS program data, and interviewed former working AFDC recipients more than a year after their termination from AFDC due to the 1981 amendments.

Findings include:

—Once the declines in caseload and outlays stabilized, OBRA had decreased the national AFDC-basic monthly caseload by 493,000 cases and monthly outlays by $93 million. However, because the caseload rose faster than predicted after this point, long-term effects are less certain.

---

[3] Final report, Evaluation of the 1981 AFDC Amendments, prepared by research Triangle Institute under task order #1, contract No. 600-82-0095, and submitted to Office of Family Assistance, Social Security Administration, April 15, 1983.

—Working AFDC recipients who lost eligibility due to the OBRA cuts were more likely to be non-white, younger than those who remained on AFDC (28–33) and had been working for their current employer between 1.7 and 3.4 years.

—Recipients who lost AFDC eligibility suffered a substantial loss of income which they could not make up by increased earnings or other means. The average *monthly* income loss for working single parent families who lost AFDC eligibility was $186 in Memphis, $229 in Dallas, $180 in Milwaukee, $151 in Syracuse, and $115 in Boston.

—A large number of families interviewed had fallen below the poverty level after the OBRA changes were implemented. This ranged from a high of 85.5 percent of families below poverty in Memphis to a low of 28 percent of the Milwaukee families interviewed in poverty.

—Lack of health coverage was common among these former AFDC recipients. In Dallas, 59.2 percent of those families who lost AFDC did not have any health coverage. In Memphis, 45 percent, in Boston 27.5 percent, in Syracuse, 17.1 percent and in Milwaukee, 13.9 percent had no health coverage at all. Private health insurance coverage was more common in high AFDC benefit States.

—Families terminated from AFDC were more likely to face increased emergency situations. In several sites, significantly more families had to forgo medical treatment or were refused medical and/or dental treatment because they could not pay. It was also more common for these families to run out of food before the end of the month, have to seek food from a church or charity group, or need to borrow $50 or more from friends or relatives to meet expenses. In all but one site, those terminated from AFDC said they are eating worse now than before.

BUDGETARY ESTIMATES OF 1981–84 LEGISLATIVE CHANGES IN THE AFDC PROGRAM

The 97th Congress made several changes in AFDC, most of which were estimated to reduce outlays in the program. The 98th Congress also amended AFDC, reversing some of the 1981 cuts. Below is a list of major provisions and the Federal outlay changes attributed to them by the Congressional Budget Office (CBO).

TABLE 24.—CBO ESTIMATES OF 1981, 1982, AND 1984 AFDC LEGISLATIVE CHANGES

[Millions of dollars]

	Fiscal year					
	1982	1983	1984	1985	1986	1987
1981 CHANGES (PUBLIC LAW 97–35)						
Limit and standardize earnings disregards	−345	−315	−325	−330	−330	NA
Change determination of resources	−16	−17	−17	−17	−17	NA

BEST COPY AVAILABLE

TABLE 24.—CBO ESTIMATES OF 1981, 1982, AND 1984 AFDC LEGISLATIVE CHANGES—Continued

[Millions of dollars]

	Fiscal year					
	1982	1983	1984	1985	1986	1987
Permit offset for food stamps and housing subsidies	(1)	(1)	(1)	(1)	(1)	NA
Permit community work experience programs	NA	NA	NA	NA	NA	NA
Treat lump-sum payments as income	−5	−5	−5	−5	−5	NA
Count some income of stepparents living with dependent child	−154	−145	−136	−127	−118	NA
Exclude family of a striker from eligibility	−5	−5	−5	−5	−5	NA
Lower age limit of dependent child	−50	−52	−54	−56	−57	NA
Limit AFDC for pregnant women	−20	−21	−21	−23	−23	NA
Recover overpayments/pay under-payments	NA	NA	NA	NA	NA	NA
Reduce Federal matching for training	−16	−17	−18	−20	−20	NA
Require retrospective accounting and monthly reporting	(1)	−35	−65	−65	−65	NA
Eligibility of aliens for AFDC	−15	−15	−15	−15	−15	NA
Administrative savings	−11	−14	−18	−22	−26	NA
Total—AFDC [2]	−637	−641	−679	−685	−681	NA
1982 CHANGES (PUBLIC LAW 97–248)						
Round benefits down		−9	−10	−10	−10	−10
Prorate benefits to application date		−13	−14	−14	−14	−14
End military service absence as eligibility grounds		−15	−17	−17	−17	−18
Permit State job search			NA	NA	NA	NA
Permit proration of shelter and utilities		(1)	(1)	(1)	(1)	(1)
Change error rate sanctions		0	0	−62	−63	−63
Exclude certain State payments from countable income		0	0	0	0	0
Extend WIN demonstration		0	0	0	0	0
Exclude State payments to children		0	0	0	0	0
Technical amendments		+1	0	0	0	0
Exclude home energy assistance		+1	+2	+2	0	0
Total AFDC provisions [2]		−35	−39	−101	−104	−105
Food stamp impact of AFDC provisions [2]		+16	+18	+18	+18	+19
1984 CHANGES (PUBLIC LAW 98–369)						
185 percent gross income limit				5	10	10
Raise part-time work expense deduction				20	20	20

TABLE 24.—CBO ESTIMATES OF 1981, 1982, AND 1984 AFDC LEGISLATIVE CHANGES—Continued

[Millions of dollars]

	Fiscal year					
	1982	1983	1984	1985	1986	1987
Continue $30 for 12 months				10	10	10
Work transition Medicaid						
Optional MRRB				(¹)	(¹)	(¹)
Count EITC only when received				8	3	3
Exempt burial plots				3	3	3
Reimburse CWEP expenses				5	5	5
Integrated service delivery					2	2
Clarify earned income definition			−5	−24	−24	−24
Standard filing unit				−135	−140	−145
$50 child support disregard [3]				115	115	115
Income verification				(¹)	−30	−20
Total AFDC provisions			−5	7	−26	−21
Medicaid impact of AFDC provisions				145	175	195
Food stamp impact of AFDC provisions				−19	−21	−21
Net impact			−5	133	128	153

[1] Savings or costs of less than $5 million annually.

[2] Does not include any resulting impact on the medicaid and food stamp program.

[3] Includes the change made to Public Law 98-378 relating to calculation of the incentive payment to States.

NA—Not available.

Section 9. Child Support Enforcement Program

BACKGROUND

The enactment of the Child Support Enforcement (CSE) program in 1975 represented a major new commitment on the part of the Congress to address the problem of nonsupport of children. Although prior to that time the Social Security Act had included provisions which were aimed at improving the collection of support on behalf of children with absent parents, these provisions had not proved to be effective. The 1975 amendments were aimed at strengthening in a very significant way the efforts of the Federal and State governments to improve the enforcement of child support obligations.

The 1975 legislation (Public Law 93-647) added a new part D to title IV of the Social Security Act. The statute authorizes Federal matching funds to be used for enforcing the support obligations owed by absent parents to their children and the spouse (or former spouse) with whom the children are living, locating absent parents, establishing paternity, and obtaining child and spousal support. Basic responsibility for administering the program is left to the States, but the Federal Government also plays a major role in funding, monitoring and evaluating State programs, providing technical assistance, and in certain instances, in undertaking to give direct assistance to the States in locating absent parents and obtaining support payments from them. The program requires the provision of child support enforcement services for both welfare and nonwelfare families and States must frequently publicize, through public service announcements, the availability of child support enforcement services, together with information about the application fee and a telephone number or address to be used to obtain additional information.

WHO IS SERVED

Each State's plan must provide that the child support agency will undertake to secure support for an AFDC child whose rights to support have been assigned to the State. This includes nearly all AFDC children, since assignment of rights to support is a condition of eligibility for AFDC benefits. The State must also provide in its plan that it will undertake to establish the paternity of an AFDC child who is born out of wedlock. These requirements apply in all cases except where, in accordance with standards established by the Secretary, the State finds that to apply them would be against the best interests of the child. For families whose AFDC eligibility ends due to the receipt of (or an increase in) child support, States must continue to provide child support enforcement services, without imposing the application fee, discussed below, that is required for non-AFDC cases. This policy was established by Public Law 98-378.

With respect to non-AFDC families, the law provides that the State must make available, once an application is filed with the State agency, the child support collection and paternity determination services which are provided under the plan for AFDC families. The State must charge non-AFDC families an application fee of up to $25. The amount of the maximum allowable fee may be adjusted periodically by the Secretary of the Department of Health and Human Services to reflect changes in administrative costs. States may charge the fee against the custodial parent, pay the fee out of State funds, or recover it from the noncustodial parent.

States also have the option of charging a late payment fee equal to between 3 and 6 percent of the amount of overdue support. Late payment fees may be charged to the noncustodial parents of AFDC and non-AFDC families and are to be collected only after the full amount of the support has been paid to the child. In addition, a State may at its option recover costs in excess of the application fee. Such recovery may be from either the custodial parent or the absent parent. If a State chooses to make recovery from the custodial parent, it must have in effect a procedure whereby all persons in the State who have authority to order support are informed that such costs are to be collected from the custodial parent.

Finally, child support enforcement services must include the enforcement of spousal support, but only if a support obligation has been established with respect to the spouse, the child and spouse are living in the same household, and child support is being collected along with spousal support.

THE FEDERAL ROLE

The Federal statute provides that the child support program must be administered by a separate organizational unit under the control of a person designated by and reporting directly to the Secretary of Health and Human Services. Under the present organizational structure of the Department, this office is known as the Federal Office of Child Support Enforcement (OCSE).

A primary responsibility of the director is to establish such standards for State programs for locating absent parents, establishing paternity, and obtaining child support and support for the spouse (or former spouse) with whom the absent parent's child is living as he determines to be necessary to assure that the programs will be effective. In addition to this broad statutory mandate, the director is required to establish minimum organizational and staffing requirements for State child support agencies, and to review and approve State plans.

The statute also requires the director of the OCSE to provide technical assistance to the States to help them establish effective systems for collecting child and spousal support and establishing paternity. To fulfill this requirement, the OCSE has established a National Child Support Enforcement Reference Center as a central location for the collection and dissemination of information about State and local programs. It has created a National Institute for Child Support Enforcement to provide training and technical assistance to persons working in the field of child support enforcement. Special initiatives, such as a recent effort to assist major urban areas in improving program performance, have also been undertaken by the OCSE.

The Child Support Enforcement Amendments of 1984 (Public Law 98-378) extend the research and demonstration authority in section 1115 of the Social Security Act to the child support enforcement program. This will make it possible for States to test innovative approaches to support enforcement so long as the modification would not disadvantage children in need of support nor result in an increase in Federal AFDC costs. Public Law 98-378 also authorizes special project grants to promote improvement in interstate enforcement. The authorization is $7 million in fiscal year 1985, $12 million in fiscal year 1986, and $15 million in fiscal year 1987 and thereafter.

The director of the OCSE has full responsibility for program evaluation. Prior to fiscal year 1984 the statute required him to conduct an annual audit of each State's program to determine whether the actual operation of the program conformed to Federal requirements. The penalty for noncompliance was a reduction of 5 percent in the Federal matching that would otherwise be payable to the State under the Aid to Families With Dependent Children (AFDC) program. This penalty was never imposed; legislation was periodically enacted to suspend its implementation.

Public Law 98-378 modified these audit and penalty requirements. Audits are now required at least every 3 years to determine whether the standards and requirements prescribed by law and regulations have been met. Under the penalty provision, a State's AFDC matching funds must be reduced by an amount equal to at least 1 but no more than 2 percent for the first failure to comply substantially with the standards and requirements, at least 2 but no more than 3 percent for the second failure, and at least 3 but no more than 5 percent for the third and subsequent failures.

FEDERAL ENFORCEMENT TOOLS

The statute creates several Federal mechanisms to assist the States in performing their paternity and child support enforcement functions. These include use of the Internal Revenue Service, the Federal courts, and the Federal Parent Locator Service (FPLS).

The statute requires the Secretary of HHS, upon the request of a State, to certify to the Secretary of Treasury for collection by the IRS any amounts identified by the State as representing delinquent child support payments. The Secretary may certify only the amounts delinquent under a court or administrative order, and only upon a showing by the State that it has made diligent and reasonable efforts to collect amounts due using its own collection mechanisms. States must reimburse the Federal Government for any costs involved in making the collections. Collections may be made on behalf of both AFDC and non-AFDC families. Use by the States of this regular IRS collection mechanism (which may include seizure by the IRS of property, freezing of accounts, and other procedures) has been relatively infrequent. In fiscal year

1984, collections were made in only 1,120 cases nationwide, for a total collection of $435,896.

The availability of the IRS collection mechanism for child support was amplified in amendments enacted as part of the Omnibus Budget Reconciliation Act of 1981 (Public Law 97-35) to allow, in addition, the collection of past support from Federal tax refunds upon a simple showing by the State agency that an individual owes past-due support which has been assigned to the State as a condition of AFDC eligibility. Upon receiving this showing, the Secretary of Treasury is required to withhold from any tax refunds due that individual an amount equal to any past-due support. The withheld amount is sent to the State agency, together with notice of the taxpayer's current address. In fiscal year 1985, a total of 476,356 cases were offset, resulting in child support collections in excess of $229 million.

Public Law 98-378 created a similar IRS offset program for non-AFDC families owed child support. States must submit to the IRS for withholding, the names of absent parents who have arrearages of at least $500 and who, on the basis of current payment patterns and the enforcement efforts that have been made, are unlikely to pay the arrearage before the IRS offset can occur. The law establishes specific notice requirements and mandates that the absent parent and any spouse be informed of the procedures which may be taken to protect the unobligated spouse's portion of the refund. The provision applies to refunds payable after December 31, 1985, and before January 1, 1991.

States also may have access to the Federal courts to enforce court orders for support. The director of the Office of Child Support Enforcement must approve a State's application for permission to use the courts of the United States to enforce court orders for support upon a finding that: (1) another State has not undertaken to enforce the court order of the originating State against an absent parent within a reasonable time; and (2) that use of the Federal courts is the only reasonable method of enforcing such order. This mechanism, designed to assist the States in enforcing interstate cases, has gone unused, apparently because the States view it as costly and complex.

Finally, the statute also requires the establishment of a Federal Parent Locator Service to be used to find absent parents in order to enforce child support obligations. Upon request, the Secretary of HHS must provide to an authorized person the most recent address and place of employment of any absent parent if the information is contained in the records of the Department of Health and Human Services, or can be obtained from any other department or agency of the United States or of any State. The Secretary must also make available the services of the PLS to any State that wishes to locate an absent parent or child for the purpose of enforcing any Federal or State law with respect to the unlawful taking or restraint of a child, or making or enforcing a child custody determination.

THE STATE ROLE

Each State is required to designate a single and separate organizational unit of State government to administer the program. Earlier child support legislation, enacted in 1967, had required that the program be administered by the welfare agency. The 1975 act deleted this requirement in order to give each State the opportunity to select the most effective administrative mechanism. Most States have placed the child support agency within the social or human services umbrella agency which also administers the AFDC program. However, two States have placed the agency in the department of revenue. The law allows the programs to be administered either on the State or local level. Ten programs are locally administered. A few programs are State administered in some counties and locally administered in others.

States must have plans, approved by the director of the OCSE, which set forth their functions and responsibilities. Both AFDC and non-AFDC families must be served. States must also enter into cooperative arrangements with appropriate courts and law enforcement officials to assist the child support agency in administering the program. These agreements may include provision for reimbursing courts and law enforcement officials for their assistance. States must operate a parent locator service to locate absent parents, and they must maintain full records of collections and disbursements, and otherwise maintain an adequate reporting system.

In order to facilitate the collection of support in interstate cases, a State must cooperate with other States in establishing paternity, locating absent parents, and in securing compliance with an order issued by another State.

The law requires the States to use several enforcement tools. They must use the IRS tax refund offset procedure for AFDC and non-AFDC families, and they must also determine periodically whether any individuals receiving unemployment compensation owe child support obligations. The State employment security agency is required to withhold unemployment benefits, and to pay the child support agency any outstanding child support obligations established by an agreement with the individual or through legal processes.

Public Law 98-378 mandated that States use a number of other enforcement techniques, beginning on October 1, 1985. These include: (1) mandatory wage withholding if support payments are delinquent in an amount equal to one month's support; (2) imposing liens against real and personal property for amounts of overdue support; (3) withholding of State tax refunds payable to a parent who is delinquent in support payments; (4) making available information regarding the amount of overdue support owed to a consumer credit bureau upon a request; (5) requiring individuals who have demonstrated a pattern of delinquent payments to post a bond or give some other guarantee to secure payment of overdue support; (6) establishing expedited processes within the State judicial system or under administrative processes for obtaining and enforcing child support orders, and, at the option of the State, determining paternity; (7) notifying each AFDC recipient at least once each year of the amount of child support collected on behalf of that recipient; (8) permitting the establishment of paternity until a child's 18th birthday: and (9) at the option of the State, providing that child support payments must be made through the agency that administers the State's income withholding system if either the custodial or noncustodial parent requests that they be made in this manner.

State child support agencies are required to undertake child support collections on behalf of children receiving foster care maintenance payments under title IV-E of the Social Security Act, if an assignment of rights to support has been secured by the foster care agency. In addition, foster care agencies are required to take steps, where appropriate, to secure an assignment to the State of any rights to support on behalf of a child receiving foster care maintenance payments.

State agencies are also required, as a result of Public Law 98-378 and regulations which are to be issued by the Department of Health and Human Services, to petition to include medical support as part of any child support order whenever health care coverage is available to the noncustodial parent at a reasonable cost. And, if a family loses AFDC eligibility as the result of increased collection of support payments, the State must continue to provide Medicaid benefits for 4 calendar months beginning with the month of ineligibility.

Finally, the statute requires each State to comply with any other requirements and standards that the Secretary determines to be necessary to the establishment of an effective child support program.

FEDERAL GARNISHMENT AND MILITARY ALLOTMENT PROVISIONS

Title IV-D of the Social Security Act also includes a provision allowing garnishment of wages and other payments made by the Federal Government for enforcement of child support and alimony obligations. The statute provides that moneys (the entitlement to which is based upon remuneration for employment) payable by the United States to any individual are subject to legal process brought for the enforcement against such individual of his legal obligation to provide child support or make alimony payments. The law sets forth in detail the procedures which must be followed for service of legal process, and specifies that the term "based upon remuneration for employment" includes wages, periodic benefits for the payment of pensions, retirement or retired pay (including social security and other retirement benefits), and other kinds of Federal payments. The following Federal income sources may not be garnished: any payment as compensation for death under any Federal program; Federal "black lung" benefits; Veterans' Administration pensions or payments as compensation for a service-related disability or death; and amounts paid to defray employment-related expenses.

As amended by Public Law 97-248, the law presently requires allotments from the pay and allowances of any member of the uniformed service (on active duty) when he fails to make child (or child and spousal) support payments. The requirement arises when the service member fails to make support payments in an amount at least equal to the value of 2 months' worth of support. Provisions of the Consumer Credit Protection Act apply so that the percentage of the member's pay which is subject to allotment is limited. The amount of the allotment is the amount of the support payment, as established under a legally enforceable administrative or judicial order.

FINANCING

Through fiscal year 1987, the Federal Government will pay 70 percent of State and local administrative costs for services to both AFDC and non-AFDC families on an open-end entitlement basis. The matching rate was reduced from 75 to 70 percent by a provision in Public Law 97-248 and, under the terms of Public Law 98-378, will decline to 68 percent in fiscal years 1988 and 1989, and 66 percent in fiscal year 1990 and each year thereafter. Funding for services to non-AFDC families was originally enacted on a temporary basis, but was made permanent in Public Law 96-272.

In addition, 90 percent Federal matching is available on an open-end entitlement basis to States that elect to establish an automatic data processing and information retrieval system. The Secretary must approve the system as meeting specified criteria before matching may be paid to the State. The matching rate was increased from 75 to 90 percent in Public Law 96-265. Public Law 98-378 permits States to use this 90 percent Federal match to establish an automated data processing and information retrieval system and, at the option of the State, for the development and improvement of the income withholding and other procedures required by the new law. These matching funds may also be used to pay for the acquisition of computer hardware.

Effective March 1, 1986, the Balanced Budget and Emergency Deficit Control Act of 1985 (P.L. 99-177) has reduced the fiscal year 1986 administrative match from 70 percent to 66.65 percent and the computer match from 90 percent to 85.69 percent. These reductions apply to fiscal year 1986 only, and return to the statutorily set rates on October 1, 1986.

Collections made on behalf of AFDC families are used to offset the cost to the Federal and State governments of welfare payments made to the family, except that AFDC families retain the first $50 of child support collected in a month. (Table 1 shows the number of families affected by this provision.) The amounts retained by the government are distributed between the Federal and State governments according to the proportional matching share which each has under a State's AFDC program.

TABLE 1.—ESTIMATED TOTAL NUMBER AND PERCENT OF AFDC FAMILIES AFFECTED BY $50 PASSTHROUGH: 1985 [1]

State	Number of AFDC families	Estimated number of families affected	Percent of families affected
Alabama	52,200	6,088	11.7
Alaska	6,300	747	11.9
Arizona	25,500	1,234	4.8
Arkansas	21,900	3,471	15.9
California	474,300	65,647	13.8

BEST COPY AVAILABLE

TABLE 1.—ESTIMATED TOTAL NUMBER AND PERCENT OF AFDC FAMILIES AFFECTED BY $50 PASSTHROUGH: 1985 [1]—Continued

State	Number of AFDC families	Estimated number of families affected	Percent of families affected
Colorado	26,900	3,791	14.1
Connecticut	40,600	10,376	25.6
Delaware	8,900	1,927	21.7
District of Columbia	22,700	1,283	5.8
Florida	96,700	10,979	11.4
Georgia	84,600	4,438	5.3
Hawaii	15,000	3,081	20.5
Idaho	6,200	2,895	46.7
Illinois	223,500	12,199	5.5
Indiana	56,800	14,705	25.9
Iowa	34,800	7,914	22.7
Kansas	20,900	3,179	15.2
Kentucky	59,400	4,486	7.6
Louisiana	76,100	5,224	6.9
Maine	18,700	4,785	25.6
Maryland	70,400	10,574	15.0
Massachusetts	83,800	16,900	20.2
Michigan	190,000	32,699	17.2
Minnesota	44,100	9,915	22.5
Mississippi	51,700	2,495	4.8
Missouri	62,800	5,144	8.2
Montana	7,700	1,067	13.9
Nebraska	13,900	1,575	11.3
Nevada	4,700	1,580	33.6
New Hampshire	5,400	681	12.6
New Jersey	119,800	18,457	15.4
New Mexico	17,900	1,356	7.6
New York	356,300	32,653	9.2
North Carolina	63,400	9,477	15.0
North Dakota	4,400	1,104	25.1
Ohio	187,500	21,721	11.6
Oklahoma	28,000	2,362	8.4
Oregon	27,800	4,458	16.0
Pennsylvania	171,800	28,059	16.3
Rhode Island	15,500	2,155	13.9
South Carolina	43,400	3,857	8.9
South Dakota	5,800	1,021	17.6

TABLE 1.—ESTIMATED TOTAL NUMBER AND PERCENT OF AFDC FAMILIES AFFECTED BY $50 PASSTHROUGH: 1985 [1]—Continued

State	Number of AFDC families	Estimated number of families affected	Percent of families affected
Tennessee	56,800	5,557	9.8
Texas	120,000	3,768	3.1
Utah	12,900	3,473	26.9
Vermont	7,100	1,553	21.9
Virginia	58,400	8,703	14.9
Washington	58,800	10,597	18.0
West Virginia	23,600	1,554	6.6
Wisconsin	79,000	29,866	37.8
Wyoming	3,800	302	8.0
Guam	1,300	137	10.5
Puerto Rico	53,500	2,502	4.7
Virgin Islands	1,300	133	10.2
Total	3,424,100	452,572	13.2

[1] These estimates are based on the number of "paying" child support cases and are a low estimate of the number of families affected.

Source: Office of Child Support Enforcement.

Finally, the statute includes an incentive system designed to encourage State and local governments to participate in the program. As a result of Public Law 98–378, the prior incentive formula, which gave States 12 percent of their AFDC collections (paid for out of the Federal share of collections), will be replaced beginning on October 1, 1985, with a new formula that is designed to encourage States to develop programs that emphasize collections on behalf of both AFDC and non-AFDC families, and to improve program cost effectiveness. The basic incentive payment will be equal to 6 percent of the State's AFDC collections and 6 percent of its non-AFDC collections. States may qualify for higher incentive payments, up to a maximum of 10 percent of collections, if their AFDC or non-AFDC collections exceed total administrative costs for the program.

The total dollar amount of incentives paid for non-AFDC families may not exceed the amount of the State's incentive payment for AFDC collections for fiscal years 1986 and 1987. However, thereafter the incentive paid for non-AFDC collections will be capped at an amount equal to 105 percent of the incentive for AFDC collections in fiscal year 1988, 110 percent in fiscal year 1989, and 115 percent in fiscal year 1990 and thereafter. The statute also establishes a hold harmless provision for fiscal years 1986 and 1987. Under this provision, a State is eligible to receive the higher of the amount due it under the new incentive and match provisions or 80 percent of what it would have received under the existing 12 percent incentive formula and 70 percent match.

DEMOGRAPHIC TRENDS [1]

A sizable and growing proportion of American households are families that consist only of a mother and her children. Since 1970, the number of female-headed families has doubled; the number of two-parent families has declined slightly. As a result, by 1981 one out of every five children in the United States lived in a family where the mother was never married or the father was absent because of death, divorce, or separation. An unprecedented number of children live in single-parent homes, many without adequate or any support from the other parent. In 1981, 52 percent of all children under age 18 who were living in female-headed households had income below the poverty threshold. Further, among children, in families with a female householder (with no husband present), 25 percent were poor despite full-time work by the mother.

In 1981, about 12.6 million children lived with only one parent, 54 percent more than in 1970. Even though the total number of children under 18 years old in the United States declined from 69 million in 1970 to 63 million in 1981, the number of children affected by divorce, separation, and unmarried status of mother continued to rise. Twenty percent of all children lived in a one-parent family in 1981, compared with 12 percent in 1970. 1977 Census data indicate that about 8 percent of the children living with two parents were living with a stepparent.

Of the 12.6 million children living with one parent, 90 percent lived with their mothers and 10 percent with their fathers. Between 1970 and 1981 the number of children living with only their fathers grew by 61 percent (from 748,000 to 1,060,000). The proportion of all children in one-parent families who lived with their fathers rose from 1.1 percent to 1.9 percent.

The largest number of children in one-parent families had a parent who was divorced, followed by children whose parents were separated or never married. In 1981, of the children who lived only with their mothers, 43 percent had a mother who was divorced, 27 percent had a mother who was separated, and 16 percent had a mother who had never been married. The number of children with a divorced mother has doubled since 1970, but the number with a never-married mother tripled.

Child support awards

In 1983, of the 8.7 million women who had children present under the age of 21 from an absent father, 42 percent never were awarded child support rights (nor had an agreement to receive child support payments) and, thus, were dependent for income on sources other than the father. For poor mothers, the proportion without child support awards was even higher, 60 percent (see table 19).

---

[1] This section draws heavily on the Congressional Research Service report titled "Statistical Data on Single-Parent Families with Children," July 12, 1983.

TABLE 2.—CHILD SUPPORT AND ALIMONY PAYMENTS IN 1983, 1981, AND 1978

[Women as of spring 1984, 1982 and 1979. Child support payments for women with own children under 21 years of age present from an absent father: alimony payment for ever-divorced women]

Year, award and recipiency status of women	Child support payments		Alimony payments	
	Number (thousands)	Percent distribution	Number (thousands)	Percent distribution
1983				
Total	8,690	100.0	17,122	100.0
Awarded [1]	5,015	57.7	2,382	13.9
Supposed to receive payments in 1983	3,995	46.0	791	4.6
Not supposed to receive payments in 1983	1,020	11.7	1,591	9.3
Not awarded [1]	3,675	42.3	14,741	86.1
Supposed to receive payments in 1983	3,995	100.0	791	100.0
Actually received payments	3,037	76.0	608	76.9
Received full amount	2,018	50.5	NA	NA
Received partial amount	1,019	25.5	NA	NA
Did not receive payments	958	24.0	183	23.1
1981				
Total	8,387	100.0	16,996	100.0
Awarded [1]	4,969	59.2	2,534	14.9
Supposed to receive payments in 1981	4,043	48.2	782	4.6
Not supposed to receive payments in 1981	926	11.0	1,752	10.3
Not awarded [1]	3,417	40.7	14,462	85.1
Supposed to receive payments in 1981	4,043	100.0	782	100.0
Actually received payments	2,902	71.8	527	67.4
Received full amount	1,888	46.7	340	43.5
Received partial amount	1,014	25.1	187	23.9
Did not receive payments	1,140	28.2	255	32.6
1978				
Total	7,094	100.0	14,334	100.0
Awarded [1]	4,196	59.1	2,052	14.3
Supposed to receive payments in 1978	3,424	48.3	760	5.3
Not supposed to receive payments in 1978	772	10.9	1,292	9.0
Not awarded [1]	2,898	40.9	12,282	85.7
Supposed to receive payments in 1978	3,424	100.0	760	100.0
Actually received payments	2,455	71.6	528	69.5
Received full amount	1,675	48.9	312	41.1
Received partial amount	779	22.7	216	28.4
Did not receive payments	969	28.4	232	30.5

---

[1] Award status as of spring 1984, 1982, and 1979.

Source: U.S. Bureau of the Census. Current Population Reports, Series P–23, No. 124. Child Support and Alimony: 1981 (advance report) and No. 141 Child Support and Alimony 1983 (advance report). Washington, U.S. Government Printing Office, 1983.

More than 5 million women with children under age 21 (58 percent) had been awarded child support or had an agreement to receive child support payments, but only 4 million (46 percent) of the women were actually "supposed to receive" child support in 1981. The rights of the remaining 12 percent were no longer in force because the father who owed payments had died, the children had grown past the age of eligibility for payments, or because of another such reason.

Many of the women who were awarded child support payments did not receive the full amount they were due. In 1983, only one-half (50 percent) of the 4 million women owed child support payments received the full amount, about 25 percent of the women received less than they were owed, and 24 percent received no payment at all. The average amount of child support for women who *received* payments in 1983 was $2,341, about 18 percent of their average total income. In 1978, the average amount of child support was $1,800, about 20 percent of the woman's income.

For women who actually received child support payments in 1983, the amount of payment tended to be higher than average for divorced and separated women, white women, and women who had attended college. Those with lower than average payment amounts included never-married women, black women, and women who had not completed 12 years of school (see table 20).

Only 18 percent of women who had never married were awarded child support payments; compared with 76 percent of divorced and remarried women and 41 percent of women who were separated. However, once payments were awarded, never-married women were almost as likely to receive them as other women. Although the women who were never married received, on the average, the lowest amount of child support payments.

Black mothers and mothers of Spanish origin living apart from the father of their children are much less likely than their white counterparts to be awarded child support. Almost 70 percent of white mothers are awarded child support payments, compared with 34 percent of black mothers, and 44 percent of mothers of Spanish origin. Further, both black and Spanish-origin mothers receive smaller payments, on the average, than do white mothers.

TABLE 3.--CHILD SUPPORT PAYMENTS AWARDED AND RECEIVED IN 1983—WOMEN WITH CHILDREN PRESENT, BY SELECTED CHARACTERISTICS

[Women with own children under 21 years of age present from an absent father as of spring 1984]

Characteristics of women	Total (thousands)	Percent awarded child support payments [1]	Supposed to receive child support in 1983			
			Total (thousands)	Actually received child support in 1983		
				Percent	Mean child support	Mean total money income
Total	8,690	57.7	3,995	76.0	$2,341	$13,132
CURRENT MARITAL STATUS						
Married [2]	2,129	75.8	1,226	71.9	2,164	11,602
Divorced	3,204	76.2	2,092	76.4	2,491	14,986
Separated	1,451	40.9	434	87.1	2,682	11,207
Widowed [3]	53	(B)	24	(B)	(B)	(B)
Never married	1,854	17.7	219	75.8	1,132	7,257
RACE AND SPANISH ORIGIN						
White	6,183	66.9	3,389	77.1	2,475	13,534
Black	2,341	33.7	534	69.3	1,465	10,188
Spanish origin [4]	790	40.9	252	62.7	1,839	10,067
YEARS OF SCHOOL COMPLETED						
Less than 12 years	2,247	42.4	707	66.1	1,535	7,637
High school: 4 years	4,201	61.2	2,056	76.5	2,159	12,351
College:						
1 to 3 years	1,508	64.1	784	79.2	2,332	14,169
4 years or more	734	71.3	447	84.1	4,118	21,520

[1] Award status as of spring 1984.

[2] Remarried women whose previous marriage ended in divorce.

[3] Widowed women those previous marriage ended in divorce.

[4] Persons of Spanish origin may be of any race.

Note.—B base less than 75,000.

Source: U.S. Bureau of the Census. Current Population Reports, Series P-23, No. 141. Child Support and Alimony: 1983 (Advance Report). U.S. Government Printing Office, Washington, 1983.

Mothers who are not high school graduates are less likely than average to be awarded child support, and their support payments are on the average much smaller than those of mothers who have completed more than 12 years of school.

In addition, the age of the woman is related to the awarding of child support payments. Women between the ages of 30 and 39 are the most likely to be awarded child support and the most likely to actually receive payments. However, women 40 years of age and older receive, on average, higher support payments. Women under age 30 are the least likely to be awarded payments, and those who are awarded support receive smaller payments, on average, than older women.

Another factor related to child support is the number of children the mother has with her in the absence of their father. Women with two children are most likely to receive support, but women with four children or more receive higher support payments. This is not surprising, since one would expect the father to pay more in child support if he has four children, as compared with two children.

PROGRAM TRENDS

The Child Support Enforcement program has grown significantly since its implementation in August 1975. From fiscal year 1976 through fiscal year 1984, more than $11.7 billion in child support payments have been collected: $5.0 billion on behalf of families receiving AFDC, and $6.7 billion on behalf of non-AFDC families.

In fiscal year 1985, collections on behalf of AFDC families exceeded $1 billion; collections on behalf of non-AFDC families totaled $1.604 billion. Total administrative expenditures were about $809 million, resulting in $3.34 collected per dollar of total administrative expenses. In fiscal year 1985, the number of parents located totaled 874,000, and the number of paternities established reached 232,000. The number of AFDC and non-AFDC cases in which a collection was made also continued to grow, as did the dollar amount of collections. Tables 4-21 present data showing the development of the child support program in recent years. In all of these tables, the 1985 data are preliminary.

TABLE 4.—PROGRAM OPERATIONS, SUMMARY OF NATIONAL STATISTICS, FISCAL YEARS 1978–1985

[Numbers in thousands]

	1978	1979	1980	1981	1982	1983	1984	1985
Total child support collections	$1,046,690	$1,332,847	$1,477,564	$1,629,000	$1,770,378	$2,024,184	$2,377,788	$2,702,772
Total AFDC collections	$471,567	$596,532	$603,074	$670,709	$785,931	$879,862	$1,000,147	$1,099,042
Total non-AFDC collections	$575,123	$736,315	$874,491	$958,291	$984,447	$1,144,322	$1,377,641	$1,603,730
Total administrative expenditures	$312,339	$383,163	$465,604	$526,423	$611,792	$691,106	$722,910	$808,842
Federal incentive payments to States and localities	$54,096	$66,255	$72,410	$90,911	$106,632	$120,738	$133,682	$132,071
Average number of AFDC cases in which a collection was made	458	463	503	548	597	595	647	679
Average number of non-AFDC cases in which a collection was made	249	224	243	325	448	507	547	652
Number of families removed from AFDC due to child support collections	19	27	40	46	32	26	41	34
Number of parents located	454	574	643	696	779	831	875	874
Number of paternities established	111	138	144	164	173	208	219	232
Number of support obligations established	315	349	374	414	462	496	573	661
Percent of AFDC assistance payments recovered through child support collections	(1)	5.6	5.2	5.2	6.8	6.6	7.0	7.3
Total child support collections per dollar of total administrative expenses	$3.35	$3.48	$3.17	$3.09	$2.89	$2.93	$3.29	$3.34

[1] Not available.

Source: Office of Child Support Enforcement.

TABLE 5.—STATE PROFILE OF COLLECTIONS AND EXPENDITURES, FISCAL YEAR 1985 [1]

[In millions of dollars]

State	Total collections	AFDC collections	Non-AFDC collections	Total expenditures
U.S. total	2,702.8	1,099.0	1,603.7	808.8
Alabama	25.5	14.9	10.7	12.8
Alaska	10.8	2.1	8.7	4.8
Arizona	12.9	1.6	11.2	6.0
Arkansas	10.0	6.3	3.7	5.3
California	305.1	154.0	151.1	131.6
Colorado	18.3	9.4	9.0	8.8
Connecticut	48.2	23.6	24.6	14.3
Delaware	10.7	3.8	6.9	1.9
District of Columbia	4.7	2.6	2.1	4.4
Florida	45.8	26.3	19.5	21.7
Georgia	26.2	19.3	7.0	11.8
Guam	.4	.3	.2	.3
Hawaii	11.6	5.2	6.5	4.9
Idaho	5.8	4.3	1.5	3.0
Illinois	54.5	27.9	26.6	25.5
Indiana	33.7	24.6	9.1	8.9
Iowa	34.4	23.9	10.5	5.8
Kansas	11.4	9.8	1.6	5.6
Kentucky	25.1	9.4	15.7	9.4
Louisiana	34.3	13.0	21.2	16.1
Maine	14.1	10.5	3.6	3.5
Maryland	83.8	28.2	55.6	21.7
Massachusetts	98.3	46.3	52.0	27.5
Michigan	341.2	111.9	229.3	44.8
Minnesota	58.9	30.8	28.0	20.2
Mississippi	6.9	4.8	2.1	3.4
Missouri	36.7	19.2	7.5	11.3
Montana	3.9	3.2	.7	1.6
Nebraska	29.9	5.9	24.0	4.7
Nevada	7.3	1.7	5.5	3.6
New Hampshire	12.8	2.5	10.2	2.6
New Jersey	200.2	51.2	149.0	42.9
New Mexico	6.3	3.8	2.5	3.3
New York	199.6	79.1	120.4	96.0
North Carolina	45.0	23.5	21.5	15.3
North Dakota	3.6	2.7	1.0	1.6
Ohio	89.8	54.6	35.1	24.5
Oklahoma	9.2	6.6	2.7	6.3
Oregon	39.8	14.1	25.7	9.8
Pennsylvania	371.2	62.8	308.4	55.6
Puerto Rico	54.3	1.5	52.7	4.5
Rhode Island	8.6	5.1	3.5	2.5
South Carolina	11.1	7.7	3.3	6.5
South Dakota	3.2	2.3	.8	1.3
Tennessee	23.6	5.9	17.7	8.2
Texas	30.3	16.0	14.4	14.0
Utah	16.8	11.4	5.3	8.6
Vermont	3.7	3.2	.5	1.4
Virgin Islands	2.3	.2	2.1	.7
Virginia	16.3	13.9	2.3	9.3
Washington	56.8	32.0	24.8	22.9
West Virginia	4.7	4.5	.1	2.8
Wisconsin	82.1	48.7	33.4	22.0
Wyoming	1.2	.8	.4	.7

---

[1] Totals may not add due to rounding.

Source: Office of Child Support Enforcement.

TABLE 6.—TOTAL CHILD SUPPORT COLLECTIONS, FISCAL YEARS 1979–1985

[In thousands of dollars]

State	1979	1980	1981	1982	1983	1984	1985
Alabama	6,854	6,573	5,021	8,060	8,643	11,978	25,532
Alaska	3,844	4,665	5,932	7,388	9,704	10,307	10,794
Arizona	6,411	7,073	8,755	10,421	10,563	14,247	12,874
Arkansas	3,921	4,568	4,856	5,553	7,401	7,809	9,988
California	199,945	194,793	201,426	247,023	254,586	285,804	305,096
Colorado	4,020	5,916	12,302	16,938	17,178	15,129	18,324
Connecticut	23,033	25,994	29,602	37,078	39,227	43,160	48,210
Delaware	5,814	6,460	6,945	7,383	8,097	9,758	10,698
District of Columbia	1,086	1,654	1,909	2,575	3,521	3,993	4,692
Florida	10,524	12,326	16,932	20,274	19,080	42,753	45,751
Georgia	5,554	6,480	8,304	9,500	13,439	18,586	26,281
Guam	160	104	149	260	391	485	433
Hawaii	5,150	6,951	7,547	8,224	10,087	10,272	11,642
Idaho	2,501	2,915	3,277	4,448	4,690	4,726	5,815
Illinois	10,740	12,447	13,943	21,599	32,025	42,876	54,530
Indiana	9,073	10,612	12,339	14,589	20,789	26,048	33,684
Iowa	13,017	16,037	21,522	26,809	29,185	33,140	34,350
Kansas	3,975	5,359	6,908	9,601	9,921	10,888	11,430
Kentucky	4,881	14,713	14,732	14,647	19,702	22,365	25,145
Louisiana	12,678	15,046	17,833	22,320	26,754	27,407	34,259
Maine	4,574	4,945	5,677	7,465	10,235	12,052	14,121
Maryland	20,856	26,398	35,193	54,705	77,129	76,637	83,807
Massachusetts	36,338	42,812	52,955	63,612	72,319	84,059	98,339
Michigan	248,414	290,152	305,396	240,438	273,799	305,421	341,178
Minnesota	21,370	24,898	29,988	37,834	44,893	52,152	58,850
Mississippi	1,662	2,128	2,510	2,691	4,887	5,300	6,895
Missouri	5,829	9,736	12,364	18,586	18,118	24,818	36,716
Montana	1,213	1,524	1,698	1,750	2,415	2,894	3,906
Nebraska	2,468	2,941	10,832	17,124	20,044	24,212	29,906
Nevada	3,487	3,076	4,011	4,712	5,556	6,441	7,280
New Hampshire	2,089	2,233	2,336	4,620	11,621	11,884	12,771
New Jersey	94,005	102,552	104,853	131,603	143,225	183,372	200,155
New Mexico	1,680	2,041	2,748	3,471	4,614	5,523	6,292
New York	136,361	145,014	141,670	151,803	174,454	182,541	199,550
North Carolina	9,168	11,443	17,196	22,267	30,830	37,292	45,042
North Dakota	1,723	1,667	1,936	2,312	2,723	3,372	3,645
Ohio	22,832	26,452	31,467	30,954	34,862	41,570	89,752
Oklahoma	1,826	2,234	3,224	3,896	5,233	7,545	9,233
Oregon	88,502	96,495	105,670	46,865	38,052	37,401	39,778
Pennsylvania	186,718	198,998	222,548	255,481	285,829	327,663	371,163
Puerto Rico	1,916	2,215	2,459	17,383	31,985	85,211	54,265
Rhode Island	3,575	3,727	3,772	5,381	7,196	7,910	8,634
South Carolina	3,545	4,505	5,323	6,153	7,461	11,078	11,063
South Dakota	1,407	1,634	1,768	2,122	2,847	2,732	3,154
Tennessee	8,976	11,143	10,145	17,491	19,077	22,295	23,562
Texas	8,207	9,877	11,633	13,841	17,941	25,004	30,311
Utah	6,624	7,427	9,710	11,948	13,594	14,666	16,759
Vermont	1,449	1,773	2,199	3,257	2,828	2,879	3,683
Virginia	9,197	8,749	9,904	12,230	13,617	13,954	16,278
Virgin Islands	260	346	429	657	684	1,479	2,339
Washington	27,018	28,298	31,756	36,551	41,643	46,035	56,830
West Virginia	1,592	1,976	2,349	2,637	3,434	3,977	4,687
Wisconsin	34,267	36,803	42,195	43,152	56,041	65,434	82,071
Wyoming	520	668	781	877	1,017	1,253	1,231
Nationwide total	1,332,847	1,477,564	1,628,927	1,770,378	2,024,184	2,377,788	2,702,772

Source: Office of Child Support Enforcement.

TABLE 7.—TOTAL DISTRIBUTED AFDC COLLECTIONS, FISCAL YEARS 1979–1985

[In thousands of dollars]

State	1979	1980	1981	1982	1983	1984	1985
Alabama	6,830	6,572	5,021	8,060	7,789	8,778	14,863
Alaska	334	588	772	1,048	1,780	1,728	2,058
Arizona	642	926	1,221	1,250	1,459	2,165	1,636
Arkansas	2,428	2,388	2,684	3,032	4,593	5,183	6,318
California	117,532	95,127	100,437	136,394	136,963	151,998	154,024
Colorado	3,525	3,742	4,505	5,990	9,330	8,986	9,372
Connecticut	11,416	13,163	15,684	21.308	20,628	21,945	23,606
Delaware	1,386	1,700	2,001	1,958	2,276	3,501	3,847
District of Columbia	907	1,286	1,379	1,813	2,421	2,242	2,609
Florida	8,598	10,772	12,289	14,286	10,408	30,587	26,261
Georgia	4,772	5,720	7,441	8,107	11,355	14,816	19,268
Guam	159	103	117	165	259	296	281
Hawaii	2,544	2,853	3,127	3,345	4,482	4,489	5,162
Idaho	2,047	2,309	2,659	3,409	3,806	3,870	4,324
Illinois	9,916	11,271	12,347	17,015	18,971	24,415	27,936
Indiana	8,116	9,163	10,129	11,650	17,646	22,541	24,585
Iowa	10.654	12,774	15,218	18,114	19,484	22,518	23,858
Kansas	3,454	4,357	5,279	7,766	7,807	8,119	9,781
Kentucky	4,615	3,924	4,314	3,752	6,316	6,388	9,440
Louisiana	5,244	6,699	7,429	9,302	9,641	10,328	13,043
Maine	4,133	4,354	4,732	5,991	8,402	9,696	10,528
Maryland	10,929	13,153	15,912	15,193	27,773	24,202	28,197
Massachusetts	29,145	31,191	38,243	40,368	40,476	42,919	46,343
Michigan	76,375	77,595	87,304	101,339	97,694	106,771	111,925
Minnesota	14,510	16,269	20,290	23,125	25,708	28,600	30,805
Mississippi	1,556	1,956	2,284	2,396	4,544	4,901	4,807
Missouri	4,165	4,998	6,423	12,434	11,500	14,332	19,174
Montana	685	830	1,039	1,237	1,834	2,273	3,195
Nebraska	2,083	2,470	3,022	3,176	3,675	4,279	5,863
Nevada	517	685	879	1,510	1,824	1,759	1,731
New Hampshire	2,089	2,154	2,220	2,303	2,649	2,459	2,523
New Jersey	28,622	30,687	31,985	33,606	41,103	50,342	51,155
New Mexico	1,160	1,409	1,907	2,218	2,891	3,537	3,750
New York	56,588	48,694	47,790	54,632	68,622	68,705	79,148
North Carolina	7,714	9,414	11,774	12,795	18,795	20,878	23,531
North Dakota	1,379	1,325	1,542	1,763	2,011	2,353	2,660
Ohio	21,974	25,548	30,494	30,082	33,403	39,918	54,637
Oklahoma	1,260	1,524	2,254	2,607	3,648	5,603	6,559
Oregon	12,977	14,142	13,305	16,451	12,645	12,217	14,123
Pennsylvania	33,190	33,434	37,381	40,586	47,135	57,897	62,791
Puerto Rico	439	626	717	687	917	1,211	1,525
Rhode Island	3,438	3,581	3,624	3,869	4,217	4,967	5,126
South Carolina	3,065	3,775	4,437	4,712	6,015	8,745	7,720
South Dakota	1,137	1,264	1,225	1,432	2,175	2,111	2,305
Tennessee	3,871	4,167	3,591	5,901	5,567	6,467	5,868
Texas	6,370	7,155	8,308	6,869	10,879	13,246	15,959
Utah	5,442	6,111	8,133	10,065	11,643	11,591	11,441
Vermont	1,201	1,498	1,939	3,038	2,626	2,668	3,162
Virginia	9,081	8,264	8,737	10,398	11,758	12,027	13,930
Virgin Islands	143	131	150	179	140	159	211
Washington	18,319	18,128	19,244	22,083	26,495	29,173	32,021
West Virginia	1,430	1,843	2,201	2,488	3,311	3,868	4,540
Wisconsin	26,044	28,792	33,029	32,020	39,582	44,522	48,721
Wyoming	379	471	536	619	790	855	793
Nationwide total	596,532	603,074	670,709	785,931	879,862	1,000,147	1,099,042

Source: Office of Child Support Enforcement.

TABLE 8.—TOTAL NON-AFDC COLLECTIONS, FISCAL YEARS 1979–1985

[In thousands of dollars]

State	1979	1980	1981	1982	1983	1984	1985
Alabama	16	910	698	160	854	3,199	10,669
Alaska	3,510	4,077	5,159	6,340	7,924	8,579	8,736
Arizona	5,769	6,147	7,534	9,171	9,104	12,081	11,238
Arkansas	1,494	2,180	2,172	2,521	2,808	2,625	3,670
California	82,412	99,666	100,989	110,630	117,623	133,805	151,072
Colorado	496	2,173	7,797	10,948	7,848	6,143	8,952
Connecticut	11,617	12,830	13,918	15,770	18,599	21,215	24,604
Delaware	4,428	4,760	4,943	5,426	5,821	6,257	6,850
District of Columbia	179	368	530	761	1,100	1,751	2,083
Florida	1,926	1,554	4,643	5,988	8,672	12,165	19,490
Georgia	783	759	863	1,393	2,084	3,770	7,013
Guam	(1)	900	32	95	131	189	152
Hawaii	2,606	4,098	4,420	4,879	5,605	5,783	6,480
Idaho	454	606	617	1,039	884	857	1,490
Illinois	823	1,176	1,596	4,585	13,054	18,461	26,594
Indiana	957	1,450	2,210	2,939	3,142	3,508	9,098
Iowa	2,363	3,262	6,304	8,696	9,701	10,621	10,492
Kansas	520	1,001	1,629	1,835	2,114	2,769	1,648
Kentucky	266	10,789	10,418	10,895	13,387	15,977	15,704
Louisiana	7,434	8,343	10,404	13,018	16,113	17,080	21,216
Maine	441	591	945	1,474	1,833	2,356	3,593
Maryland	9,927	13,246	19,281	39,513	49,356	52,435	55,609
Massachusetts	7,193	11,621	14,712	23,244	31,844	41,140	51,996
Michigan	172,039	212,557	218,092	139,099	176,105	198,650	229,254
Minnesota	6,861	8,629	9,698	14,709	19,184	23,551	28,045
Mississippi	106	172	226	295	343	399	2,088
Missouri	1,664	4,738	5,941	6,152	6,618	10,486	17,542
Montana	528	694	659	513	582	621	711
Nebraska	385	471	7,810	13,949	16,369	19,934	24,043
Nevada	2,970	2,390	3,132	3,202	3,731	4,682	5,549
New Hampshire	0	78	116	2,318	8,972	9,425	10,248
New Jersey	65,383	71,865	72,868	97,997	102,122	133,030	149,000
New Mexico	520	631	841	1,252	1,722	1,986	2,542
New York	79,773	96,320	93,880	97,171	105,831	113,836	120,402
North Carolina	1,454	2,029	5,422	9,472	12,035	16,414	21,511
North Dakota	344	342	394	549	712	1,019	986
Ohio	858	904	972	872	1,459	1,652	35,115
Oklahoma	566	710	970	1,289	1,585	1,942	2,674
Oregon	75,525	82,354	92,364	30,234	25,406	25,184	25,655
Pennsylvania	153,528	165,564	185,167	214,895	238,694	269,766	308,372
Puerto Rico	1,477	1,589	1,742	16,697	31,068	84,000	52,740
Rhode Island	137	146	148	1,512	2,979	2,943	3,508
South Carolina	480	730	886	1,441	1,446	2,332	3,342
South Dakota	270	370	543	690	672	621	848
Tennessee	5,105	6,976	6,626	11,591	13,510	15,828	17,694
Texas	1,837	2,722	3,325	6,973	7,062	11,758	14,353
Utah	1,183	1,317	1,577	1,883	1,952	3,075	5,317
Vermont	249	276	260	219	202	211	522
Virginia	116	484	1,167	1,832	1,858	1,927	2,347
Virgin Islands	116	215	278	479	544	1,320	2,128
Washington	8,699	10,170	12,512	14,467	15,148	16,861	24,808
West Virginia	162	133	147	149	123	109	147
Wisconsin	8,224	8,010	9,165	11,132	16,459	20,912	33,350
Wyoming	141	197	245	258	227	398	437
Nationwide total	736,315	874,491	958,291	984,447	1,144,322	1,377,641	1,603,730

Source: Office of Child Support Enforcement.

TABLE 9.—AVERAGE NUMBER OF AFDC CHILD SUPPORT ENFORCEMENT CASES IN WHICH A COLLECTION WAS MADE, FISCAL YEARS 1978–1985

State	1978	1979	1980	1981	1982	1983	1984	1985
Total	458,439	463,100	502,603	547,707	597,231	594,679	646,545	678,858
Alabama	7,966	21,489	20,155	18,398	18,675	16,301	15,166	9,133
Alaska	246	213	325	613	909	1,154	1,180	1,120
Arizona	819	906	1,025	1,094	1,018	1,164	1,813	1,851
Arkansas	2,509	2,641	2,808	3,019	3,090	3,683	4,591	5,207
California	92,325	76,460	80,428	86,859	[1] 123,393	86,277	91,956	98,469
Colorado	3,177	2,875	2,643	3,322	3,539	4,129	5,096	5,687
Connecticut	8,002	9,078	9,862	11,245	[2] 12,571	13,591	14,600	15,565
Delaware	1,156	1,704	1,718	2,313	1,691	2,254	2,684	2,891
District of Columbia	708	758	870	848	[2] 1,063	1,508	1,999	1,925
Florida	7,376	6,710	8,657	9,837	9,325	11,856	15,596	16,468
Georgia	6,350	6,023	6,346	7,360	6,946	7,826	8,964	6,657
Guam	([3])	([3])	111	102	131	186	193	206
Hawaii	1,757	1,869	2,125	2,319	2,272	2,718	3,126	4,622
Idaho	1,346	1,166	1,289	1,122	[2] 1,484	936	2,482	4,343
Illinois	9,624	10,348	11,901	13,717	[2] 14,611	15,551	17,622	18,299
Indiana	9,488	6,339	6,835	8,226	[4] 13,813	19,514	22,553	22,058
Iowa	8,396	9,684	8,805	11,245	8,887	10,135	12,232	11,871
Kansas	2,859	2,842	3,161	3,764	[2] 4,479	4,205	4,901	4,769
Kentucky	3,083	3,341	3,317	4,638	4,370	4,601	5,171	6,729
Louisiana	5,204	5,461	5,859	6,652	6,687	6,944	6,978	7,836
Maine	2,368	3,043	3,514	4,297	4,964	6,141	6,970	7,178
Maryland	14,002	12,840	13,304	15,063	14,481	15,576	15,796	15,861
Massachusetts	17,782	19,357	20,664	22,147	23,158	22,655	23,482	25,350
Michigan	61,985	66,270	69,134	70,851	68,266	73,442	74,189	59,049
Minnesota	9,818	9,145	11,935	13,854	12,752	12,891	13,933	14,872
Mississippi	1,846	2,033	2,432	2,757	2,765	3,216	3,627	3,742
Missouri	([3])	3,550	4,312	5,048	[2] 6,361	2,465	2,280	7,716
Montana	748	540	635	726	908	1,178	1,385	1,600
Nebraska	1,509	1,333	1,372	1,559	1,732	1,841	2,217	2,362
Nevada	494	492	952	1,976	2,013	2,261	2,245	2,370
New Hampshire	1,530	1,710	2,148	2,093	1,745	1,512	1,169	1,021
New Jersey	16,243	31,161	26,480	28,663	26,493	24,712	29,751	27,686
New Mexico	1,429	1,650	1,657	1,772	2,085	2,027	2,779	2,034
New York	36,287	37,914	37,593	36,450	[4] [5] 41,968	44,168	46,386	48,979
North Carolina	11,232	([3])	9,457	10,622	10,352	12,089	13,104	14,216
North Dakota	759	772	910	1,074	1,170	1,193	1,460	1,656
Ohio	24,419	20,456	21,383	26,097	24,519	26,064	28,771	32,582
Oklahoma	1,101	724	1,733	2,052	2,231	2,487	3,223	3,543
Oregon	6,761	6,771	6,715	6,330	4,399	4,020	6,202	6,687
Pennsylvania	15,172	13,376	17,207	[6] 22,406	[6] 29,970	35,405	39,565	42,088
Puerto Rico	413	636	1,466	2,044	1,880	2,281	2,683	3,753
Rhode Island	2,419	2,698	2,878	3,176	3,337	2,441	3,133	3,233
South Carolina	3,343	([3])	4,510	4,091	3,760	4,182	5,571	5,785
South Dakota	1,087	983	972	1,016	1,064	1,223	1,279	1,532
Tennessee	4,705	4,674	5,547	6,099	5,967	6,642	7,273	8,336
Texas	5,446	5,641	5,363	5,370	4,013	4,099	4,674	5,652
Utah	3,784	3,857	4,264	4,663	5,784	5,346	5,686	5,209
Vermont	953	1,057	1,222	1,778	1,972	2,223	2,167	2,329
Virgin Islands	232	145	136	115	123	82	121	199
Virginia	4,729	2,802	5,570	9,059	12,979	13,554	13,815	13,054
Washington	14,860	14,184	16,347	15,078	[7] 12,619	14,160	15,900	15,895
West Virginia	1,430	1,721	1,632	1,829	1,824	2,044	2,247	2,331
Wisconsin	16,868	21,391	20,603	20,514	20,281	26,106	24,166	44,799
Wyoming	294	267	316	346	347	420	393	453

[1] OCSE estimate, based on data submitted through time of publication.

[2] Increase due to impact of Federal Tax Refund Offset Program.

[3] Data not reported for this item or insufficient data reported to perform indicated computation.

[4] Indiana: Increase due to enlargement of State's total IV-D AFDC caseload.

[5] New York: Increase reflects unrealistically low average in fiscal year 1981, due to incomplete reporting by New York City.

[6] Pennsylvania: Increases due to greater number of counties reporting data and to more accurate data resulting from improved county ADP systems.

[7] Washington: Decrease due to change from estimated to actual case counts.

Source: Office of Child Support Enforcement.

TABLE 10.—AVERAGE NUMBER OF NON-AFDC CHILD SUPPORT ENFORCEMENT CASES IN WHICH A COLLECTION WAS MADE, FISCAL YEARS 1978–1985

State	1978	1979	1980	1981	1982	1983	1984	1985
Total	248,590	223,809	243,468	325,280	448,102	507,031	547,173	652,104
Alabama	110	50	43	26	31	221	893	5,023
Alaska	2,309	2,008	1,876	1,967	2,451	3,035	3,260	3,205
Arizona	(1)	3,478	0	0	4,422	5,525	5,148	4,770
Arkansas	764	1,521	1,993	2,137	2,581	2,803	3,194	3,613
California	69,696	54,019	55,766	56,803	[2] 59,245	66,164	63,650	64,987
Colorado	1,017	780	1,010	2,963	4,069	3,647	2,260	3,976
Connecticut	(1)	0	0	0	0	7,826	8,484	9,392
Delaware	3,210	3,104	3,122	3,302	3,175	3,611	3,788	4,395
District of Columbia	93	43	138	200	370	478	900	1,007
Florida	1,200	2,101	1,071	1,941	[3] 4,025	8,002	3,581	7,593
Georgia	1,207	1,451	1,553	2,018	2,855	4,091	6,001	5,487
Guam	(1)	0	1	39	61	63	81	65
Hawaii	(1)	0	0	261	298	308	321	352
Idaho	455	314	387	435	611	591	586	1,047
Illinois	196	1,260	2,336	3,423	[4] 6,205	6,433	6,603	10,030
Indiana	450	675	861	1,209	1,546	1,784	1,972	2,881
Iowa	671	1,460	1,870	3,419	3,738	4,192	4,240	4,913
Kansas	210	320	494	945	1,184	1,449	1,668	758
Kentucky	255	1,667	1,549	2,076	2,449	3,657	3,836	3,647
Louisiana	6,866	965	436	7,706	8,060	9,517	9,987	10,636
Maine	638	296	645	196	271	296	933	1,496
Maryland	130	0	0	6,186	15,849	27,384	26,232	26,154
Massachusetts	(1)	0	0	0	0	0	0	0
Michigan	(1)	0	0	0	53,137	51,304	50,131	88,675
Minnesota	2,766	3,866	5,115	5,707	[5] 8,331	10,263	11,155	12,615
Mississippi	81	153	199	248	318	320	456	1,319
Missouri	(1)	913	1,283	1,754	2,490	1,631	1,754	5,362
Montana	444	301	361	329	341	348	348	344
Nebraska	176	181	210	2,432	[6] 5,011	4,942	7,122	7,874
Nevada	4,026	2,558	3,250	4,650	4,792	4,084	4,758	5,360
New Hampshire	(1)	0	0	0	0	5,433	5,036	4,939
New Jersey	20,000	13,295	17,206	29,130	34,662	38,557	44,345	45,868
New Mexico	286	875	573	1,035	1,504	1,806	1,624	2,249
New York	39,623	37,854	31,618	48,370	55,832	54,296	60,471	63,829
North Carolina	1,715	0	2,360	3,190	4,524	5,910	7,800	10,137
North Dakota	154	149	91	99	127	171	221	266
Ohio	1,430	1,033	916	1,857	3,540	4,594	7,756	10,853
Oklahoma	(1)	184	565	719	1,078	1,269	1,400	1,968
Oregon	17,957	28,807	32,459	32,472	[7] 16,065	16,262	16,520	19,331
Pennsylvania	49,621	37,877	47,648	66,691	[8] 90,694	92,084	104,449	108,498
Puerto Rico	710	178	2,720	[9] 6,846	[9] 9,114	17,908	22,916	26,873
Rhode Island	57	110	190	294	1,900	1,407	1,941	1,969
South Carolina	203	0	188	472	1,013	1,198	1,948	2,777
South Dakota	297	254	320	391	491	512	516	502
Tennessee	6,360	7,816	7,981	6,251	8,532	10,271	11,032	12,156
Texas	2,861	1,673	2,602	2,744	3,888	4,224	4,575	8,833
Utah	400	427	512	489	632	698	889	1,068
Vermont	181	194	195	194	172	194	153	393
Virgin Islands	1	64	162	188	267	262	925	1,288
Virginia	38	36	201	1,078	914	1,554	916	876
Washington	4,822	5,115	5,802	6,215	6,648	7,422	8,824	9,802
West Virginia	130	147	137	185	386	186	125	288
Wisconsin	4,685	4,150	3,597	3,876	8,061	6,719	9,303	20,288
Wyoming	89	87	116	122	143	125	146	77

---

[1] Data not reported for this item or insufficient data reported to perform indicated computation.

[2] OCSE estimate, based on data submitted through time of publication.

[3] Florida: Increase due to more accurate data resulting from new State Management Information System.

[4] Illinois: Increase due to enlargement of State's total non-AFDC caseload.

[5] Minnesota: Increase due to enlargement of State's total non-AFDC caseload.

[6] Nebraska: Increase in fiscal year 1982 due to irregular reporting by clerks of district courts and county attorneys offices.

[7] Oregon: Decrease due to change in State law regarding umbrella agency's jurisdiction over all non-AFDC families for whom support payments are to be made; now only families specifically requesting enforcement services are counted.

[8] Pennsylvania: Increase due to greater number of counties reporting and to more accurate data resulting from improved county ADP systems.

[9] Puerto Rico: Increases due to updating of caseload files and revision of previously reported data by Office of Court Administration.

Source: Office of Child Support Enforcement.

TABLE 11.—NUMBER OF FAMILIES REMOVED FROM AFDC DUE TO CHILD SUPPORT COLLECTIONS, FISCAL YEARS 1978–1985

State	1978	1979	1980	1981	1982	1983	1984	1985
Total	18,744	27,480	40,312	45,631	31,883	26,194	41,062	33,635
Alabama	1,048	284	523	135	113	2,011	968	324
Alaska	([1])	398	100	150	200	220	40	13
Arizona	118	17	10	31	[2] 47	10	0	0
Arkansas	824	215	268	297	[3] 507	308	159	109
California	([1])	0	0	0	0	0	88	445
Colorado	1,419	288	113	172	[4] 568	0	2,629	356
Connecticut	([1])	640	293	209	[5] 77	196	228	667
Delaware	([1])	128	0	0	62	94	62	54
District of Columbia	7	11	53	53	90	0	75	0
Florida	434	356	458	582	332	457	819	305
Georgia	([1])	272	107	0	469	37	1,302	1,600
Guam	([1])	0	1	15	13	69	0	0
Hawaii	29	0	24	27	239	189	114	140
Idaho	66	80	93	480	104	55	8	38
Illinois	718	0	0	0	0	546	765	615
Indiana	([1])	0	1,468	5,770	322	0	863	154
Iowa	([1])	780	82	41	18	23	78	21
Kansas	1,770	1,197	8	483	421	89	270	194
Kentucky	([1])	0	379	436	0	375	287	257
Louisiana	([1])	796	161	1,022	[6] 685	732	767	645
Maine	([1])	0	0	650	454	572	167	197
Maryland	1,848	1,184	1,217	970	[7] 668	648	1,074	0
Massachusetts	([1])	206	0	0	0	370	664	1,258
Michigan	209	1,417	1,232	1,639	1,391	1,008	1,059	570
Minnesota	582	490	912	1,146	1,032	815	1,459	808
Mississippi	47	0	80	86	218	0	23	68
Missouri	([1])	96	12,954	952	0	0	0	0
Montana	138	141	99	82	120	29	90	53
Nebraska	96	72	56	46	32	3	7	23
Nevada	([1])	0	28	106	65	138	80	79
New Hampshire	34	0	0	0	0	0	0	28
New Jersey	2,007	2,218	2,366	3,155	3,265	2,573	4,450	4,386
New Mexico	123	7	70	66	27	47	20	51
New York	([1])	2,050	1,920	2,495	[8] 5,027	3,318	5,124	6,105
North Carolina	([1])	244	166	289	0	288	333	145
North Dakota	([1])	1,218	445	125	125	578	2,207	1,673
Ohio	([1])	243	95	584	544	501	338	226
Oklahoma	859	208	117	159	128	169	199	101
Oregon	3,144	3,654	788	478	269	243	205	113
Pennsylvania	([1])	2,713	2,351	0	0	905	1,390	665
Puerto Rico	113	64	35	260	272	556	2,399	1,032
Rhode Island	([1])	1,810	1,482	1,383	1,548	0	363	282
South Carolina	51	0	788	724	931	0	1,475	1,867
South Dakota	287	136	153	123	126	30	112	36
Tennessee	([1])	0	2,857	16,152	6,300	4,223	2,857	2,730
Texas	1,921	1,697	1,909	1,405	[9] 2,314	2,111	3,618	2,851
Utah	329	331	293	401	337	0	321	647
Vermont	([1])	0	0	0	0	0	0	0
Virgin Islands	([1])	5	0	1	0	77	0	1
Virginia	167	1,475	2,769	524	165	0	77	111
Washington	([1])	0	0	0	0	0	0	0
West Virginia	270	250	907	1,383	1,457	932	775	689
Wisconsin	([1])	0	0	233	756	518	647	903
Wyoming	86	89	82	111	44	208	7	0

---

[1] Data not reported for this item or insufficient data reported to perform indicated computation.

[2] Arizona: Represents data for only 11 months of the fiscal year.

[3] Arkansas: Increase due to reduced AFDC grant-payments during 1st and 2nd quarters, causing more cases to close when collections made.

[4] Colorado: Increase due to reporting of data for 12 months instead of 2.

[5] Connecticut: Represents data for 4th quarter only.

[6] Louisiana: Decrease due to high unemployment rates causing decrease in payments from absent parents.

[7] Maryland: Decrease due to incomplete reporting by counties; no data collected from Baltimore County.

[8] New York: Increase due to more accurate data resulting from improved reporting by districts.

[9] Texas: Increase due to increased enforcement of court orders.

Note: These data are maintained by IV–A agencies, which often results in reporting difficulties for IV–D agencies.

Source: Office of Child Support Enforcement.

TABLE 12.—TOTAL NUMBER OF PATERNITIES ESTABLISHED, FISCAL YEARS 1978–1985

State	1978	1979	1980	1981	1982	1983	1984	1985
Total	110,714	137,645	144,483	163,538	172,767	208,270	219,360	231,598
Alabama	6,160	6,161	6,302	4,884	4,472	4,833	4,921	6,750
Alaska	5	3	53	73	98	105	90	84
Arizona	287	154	485	542	618	595	500	495
Arkansas	3,745	2,586	730	677	1,131	1,489	1,911	2,944
California	14,188	19,364	15,444	22,791	[1] 21,427	21,714	24,378	23,495
Colorado	1,137	1,046	1,301	1,103	1,154	1,033	1,187	1,426
Connecticut	2,566	3,029	3,021	3,769	4,397	4,563	4,363	4,629
Delaware	242	205	831	694	871	1,346	929	1,120
District of Columbia	378	386	737	907	941	811	471	583
Florida	6,684	7,078	7,524	7,557	[2] 8,870	10,679	15,741	14,452
Georgia	2,527	3,642	4,965	5,329	5,452	6,102	6,518	5,809
Guam	(3)	(3)	138	297	144	173	115	170
Hawaii	726	854	656	794	1,077	1,181	888	688
Idaho	40	287	76	79	34	84	205	383
Illinois	1,351	3,025	4,434	6,028	6,194	7,339	4,711	7,026
Indiana	2,052	1,644	2,519	1,287	[4] 3,853	3,036	6,859	5,149
Iowa	(3)	575	1,080	1,373	1,121	922	1,072	1,366
Kansas	521	696	1,030	1,141	978	682	404	325
Kentucky	367	784	1,819	2,157	2,453	2,986	2,774	3,315
Louisiana	1,013	1,304	2,095	2,869	3,273	3,195	3,180	4,235
Maine	(3)	382	633	339	595	604	554	809
Maryland	6,294	13,307	8,339	10,435	[5] 8,417	8,211	8,290	9,263
Massachusetts	1,218	2,096	3,035	3,564	3,429	3,766	3,841	5,208
Michigan	6,567	7,529	8,751	10,696	[6] 12,952	17,374	13,875	16,186
Minnesota	1,249	1,786	2,523	2,526	2,707	2,994	3,090	3,265
Mississippi	819	932	1,696	1,725	1,751	1,797	2,139	2,600
Missouri	(3)	(3)	171	476	424	17,522	17,046	14,423
Montana	68	92	170	97	[7] 56	37	33	54
Nebraska	(3)	(3)	60	268	335	410	449	430
Nevada	214	233	189	395	[8] 626	409	356	477
New Hampshire	42	35	78	71	64	30	52	13
New Jersey	7,503	8,242	9,417	11,282	9,647	10,616	11,739	13,853
New Mexico	170	322	659	1,258	1,071	1,141	970	709
New York	16,025	17,503	14,072	12,041	12,751	15,884	17,403	16,595
North Carolina	5,129	6,592	7,399	6,728	7,071	7,368	7,185	9,307
North Dakota	280	293	337	328	284	440	488	530
Ohio	2,305	4,808	6,464	7,658	8,552	7,767	9,804	9,314
Oklahoma	32	43	452	698	[9] 1,132	1,811	562	590
Oregon	1,528	1,521	2,101	2,199	2,190	2,173	1,947	2,189
Pennsylvania	4,811	4,450	5,384	7,305	9,362	11,906	13,404	15,613
Puerto Rico	25	22	23	38	37	19	12	4
Rhode Island	(3)	347	478	354	333	451	549	244
South Carolina	1,055	1,378	1,547	1,536	1,413	2,552	3,879	3,479
South Dakota	104	60	83	137	159	172	227	300
Tennessee	5,077	5,003	5,871	5,669	5,913	6,592	6,217	6,863
Texas	215	202	1,454	1,822	1,862	1,085	769	833
Utah	166	487	545	1,076	1,229	1,546	1,669	1,418
Vermont	77	44	180	245	234	349	379	388
Virgin Islands	1	4	11	3	22	104	15	231
Virginia	846	1,452	1,712	1,995	2,463	2,351	1,990	1,962
Washington	291	656	850	981	1,474	1,700	1,905	2,187
West Virginia	155	156	422	484	521	467	378	223
Wisconsin	4,440	4,803	4,079	4,672	5,025	5,688	6,895	7,384
Wyoming	19	44	67	88	108	66	32	210

---

[1] OCSE estimate, based on data submitted through time of publication.

[2] Florida: Increase due to hiring new staff, to change in tactics caused by legal decision, to increased number of applicants for non-AFDC services, and to increased number of illegitimate births.

[3] Data not reported for this item or insufficient data reported to perform indicated computation.

[4] Indiana: Increase due to correction of error in reporting method and resulting inclusion of previously unreported data.

[5] Maryland: Decrease due to concentration of staff efforts on locate activity.

[6] Michigan: Increase due to reporting of previously unavailable data from contracted agencies.

[7] Montana: Decrease due to hiring freeze and centralization of non-AFDC caseload, resulting in fewer staff available to maintain caseload.

[8] Nevada: Increase due to increased staffing and worker effectiveness.

[9] Oklahoma: Increase due to more voluntary acknowledgments resulting from improved methods of paternity establishment.

Source: Office of Child Support Enforcement.

TABLE 13.—TOTAL NUMBER OF SUPPORT OBLIGATIONS ESTABLISHED, FISCAL YEARS 1978–1985

State	1978	1979	1980	1981	1982	1983	1984	1985
Total	314,584	349,122	374,434	414,053	462,128	496,294	573,313	660,864
Alabama	8,545	7,585	7,626	5,137	5,978	6,766	11,615	17,781
Alaska	178	553	755	955	1,159	1,197	1,145	1,311
Arizona	(1)	686	2,133	2,993	3,014	3,069	2,145	2,761
Arkansas	6,277	3,382	3,274	3,484	3,121	3,519	4,666	5,698
California	51,752	61,806	51,267	63,323	[2] 56,402	54,598	56,528	49,738
Colorado	5,553	4,996	9,376	6,560	6,087	6,356	4,204	5,576
Connecticut	27,858	11,123	11,562	12,474	11,867	16,272	10,115	8,449
Delaware	247	276	1,196	1,814	2,415	1,709	1,406	1,953
District of Columbia	468	416	637	550	432	357	879	701
Florida	13,742	11,560	12,384	13,778	[3] 15,562	18,098	16,686	21,037
Georgia	4,443	5,739	6,764	7,372	7,631	9,551	9,894	8,687
Guam	(1)	(1)	112	169	98	132	81	146
Hawaii	2,585	1,748	1,104	2,069	2,476	3,351	3,297	3,234
Idaho	899	9,444	2,721	3,965	1,962	763	648	861
Illinois	16,512	11,379	10,676	10,933	14,995	22,850	19,198	20,819
Indiana	3,471	2,314	6,982	12,719	11,915	12,282	12,556	12,307
Iowa	(1)	4,204	8,260	10,752	[4] 9,393	8,490	10,701	7,358
Kansas	5,301	2,781	2,565	2,600	2,587	1,636	1,823	1,800
Kentucky	516	1,590	3,402	5,718	[5] 3,914	4,826	6,181	6,048
Louisiana	2,094	4,587	5,606	7,678	8,502	9,483	23,617	21,419
Maine	(1)	1,115	1,140	3,109	3,388	3,374	3,657	4,093
Maryland	10,341	8,128	7,040	10,100	[6] 7,878	9,238	22,818	27,592
Massachusetts	10,154	9,758	9,604	12,414	16,785	9,196	9,806	11,950
Michigan	6,123	7,572	10,587	10,445	[7] 13,303	15,436	24,826	35,416
Minnesota	1,747	4,095	10,882	8,268	7,810	6,626	10,243	10,130
Mississippi	720	730	751	822	808	861	1,680	3,065
Missouri	(1)	(1)	2,013	3,719	[8] 2,335	12,110	25,053	51,918
Montana	139	78	127	69	[9] 377	486	625	881
Nebraska	218	(1)	180	789	832	875	737	662
Nevada	1,889	1,579	2,171	4,362	3,842	3,883	3,858	3,339
New Hampshire	162	1,828	186	219	107	2,060	425	387
New Jersey	18,408	27,034	20,521	24,744	25,447	28,481	32,484	37,724
New Mexico	1,758	2,826	3,486	4,416	3,478	4,290	3,672	3,044
New York	25,098	28,379	28,159	27,987	28,036	37,131	45,144	43,733
North Carolina	4,282	10,577	11,732	11,473	11,964	12,584	12,467	17,277
North Dakota	589	571	474	443	547	528	647	521
Ohio	6,216	10,248	12,261	7,796	[10] 11,310	8,461	14,475	14,080
Oklahoma	624	1,770	2,314	3,824	3,703	3,747	4,549	4,113
Oregon	479	7,660	7,373	7,259	6,004	6,989	5,323	5,830
Pennsylvania	30,243	32,347	36,060	34,942	[11] 75,106	71,041	73,671	99,619
Puerto Rico	1,484	1,199	2,790	5,372	7,817	9,623	12,385	9,200
Rhode Island	(1)	2,391	3,027	2,835	1,824	4,514	2,517	2,322
South Carolina	1,065	924	1,285	1,272	1,278	1,928	5,862	4,747
South Dakota	1,735	(1)	284	338	354	516	516	653
Tennessee	2,603	3,408	3,741	4,149	8,545	7,307	9,234	10,742
Texas	12,171	12,066	13,482	11,784	12,331	13,523	10,437	12,461
Utah	4,520	3,582	5,593	4,794	5,338	6,251	7,894	6,551
Vermont	250	944	1,127	1,327	1,049	1,436	1,465	2,671
Virgin Islands	116	33	155	138	186	142	462	886
Virginia	969	2,407	5,590	7,949	8,646	5,223	3,913	7,594
Washington	10.340	9,546	9,826	9,211	10,072	10,948	9,416	9,961
West Virginia	349	382	950	728	580	558	686	700
Wisconsin	9,170	9,678	11,028	11,544	11,190	11,306	14,656	18,860
Wyoming	181	98	93	369	348	317	325	458

---

[1] Data not reported for this item or insufficient data reported to perform indicated computation.

[2] OCSE estimate based on data submitted through time of publication.

[3] Florida: Increase due to hiring of new staff, to change in tactics caused by legal decision, implementation of recommendations from Federal comprehensive review and to personnel reorganization which allowed investigators more time to work on establishments.

[4] Iowa: Decrease due to implementation of case prioritization procedures.

[5] Kentucky: Decrease due to change in data collection methodology and to reduced AFDC caseload resulting from more stringent N–A eligibility requirements.

[6] Maryland: Decrease due to concentration of staff efforts on locate activity.

[7] Michigan: Increase due to reporting of previously unavailable data from contracted agencies.

[8] Missouri: Decrease due to reporting problems resulting from implementation of new State ADP system.

[9] Montana: Increase due to clarification of reporting requirements.

[10] Ohio: Increase due to greater efforts on part of county workers.

[11] Pennsylvania: Increase due to greater number of counties reporting data and to more accurate data resulting from improved county ADP systems.

Source: Office of Child Support Enforcement.

TABLE 14.—PERCENTAGE OF AFDC ASSISTANCE PAYMENTS RECOVERED THROUGH CHILD SUPPORT COLLECTIONS, FISCAL YEARS 1979–1985

State	1979	1980	1981	1982	1983	1984	1985
Total	5.8	5.2	5.2	6.8	6.6	7.0	7.3
Alabama	8.5	8.2	6.5	[1,2] 11.2	10.6	12.0	21.0
Alaska	1.5	2.3	2.3	3.2	5.9	4.6	4.6
Arizona	2.0	2.4	2.6	2.5	2.3	3.2	2.5
Arkansas	4.8	4.8	5.3	[2,3] 8.9	13.3	13.3	15.2
California	6.5	4.6	4.0	[1,3] 6.2	4.6	4.8	4.5
Colorado	4.8	4.9	5.1	[2,3] 7.6	9.4	8.4	9.3
Connecticut	6.5	7.0	7.6	[3] 10.5	12.7	9.8	10.1
Delaware	4.4	5.5	6.2	7.3	8.4	12.7	14.6
District of Columbia	1.0	1.4	1.6	2.1	3.0	3.0	3.3
Florida	5.5	5.6	5.9	[1,2] 6.9	4.3	12.3	10.0
Georgia	4.3	4.4	5.0	4.7	6.0	7.5	9.8
Guam	5.3	3.0	3.0	5.0	6.1	6.2	6.4
Hawaii	2.9	3.2	3.4	4.1	5.3	5.4	6.6
Idaho	8.9	9.2	12.1	[1,2] 17.0	17.8	18.8	22.6
Illinois	1.5	1.6	1.6	2.3	2.3	2.9	3.2
Indiana	7.2	7.2	7.0	[1,2] 8.4	12.1	14.8	16.1
Iowa	9.0	9.3	10.3	[2,3] 14.4	13.5	14.2	15.0
Kansas	5.0	5.7	6.0	[2,3] 10.8	8.6	8.4	11.6
Kentucky	3.8	3.1	2.9	3.1	5.0	4.7	6.8
Louisiana	5.2	5.9	5.7	[2,3] 7.3	7.2	7.1	8.4
Maine	7.3	7.4	8.1	10.2	13.3	14.0	13.4
Maryland	6.1	6.6	7.0	7.4	12.4	17.6	11.6
Massachusetts	6.6	6.3	7.4	[1,2] 9.1	13.6	13.3	11.3
Michigan	9.0	8.0	7.9	[2,3] 12.9	8.6	8.8	9.7
Minnesota	7.8	7.9	8.4	[2,3] 11.2	10.0	10.0	10.5
Mississippi	2.9	3.3	3.7	4.3	8.0	8.5	7.9
Missouri	2.8	3.0	3.4	[2,3] 7.1	6.1	7.3	9.6
Montana	4.4	4.7	5.6	6.7	7.7	8.4	10.7
Nebraska	5.4	6.4	6.4	7.0	7.3	8.1	10.0
Nevada	6.3	7.1	7.1	[2,3] 12.5	16.8	17.3	14.9
New Hampshire	9.4	8.5	8.0	[2,3] 9.4	11.2	11.3	12.4
New Jersey	5.9	6.1	5.9	7.0	8.1	10.3	9.7
New Mexico	3.4	3.6	4.2	5.0	6.7	7.2	7.3
New York	3.5	3.4	3.2	3.5	3.9	3.6	4.0
North Carolina	5.6	6.2	7.5	[2,3] 8.9	16.3	14.1	15.0
North Dakota	9.6	9.1	9.8	[2,3] 12.3	13.5	14.6	14.7
Ohio	4.8	4.8	5.0	6.1	5.1	5.5	7.1
Oklahoma	1.6	1.7	2.5	3.5	4.7	6.6	7.5
Oregon	9.0	9.5	12.0	[2,3] 16.6	12.6	12.1	13.3
Pennsylvania	4.6	4.6	4.9	6.0	6.4	8.0	8.4
Puerto Rico	.7	1.1	1.1	1.1	2.9	1.8	2.4
Rhode Island	6.1	5.0	4.8	5.7	6.3	7.1	7.0
South Carolina	5.4	5.6	5.6	6.2	7.9	11.7	8.6
South Dakota	6.5	6.9	7.1	[2] 8.6	12.4	12.3	12.9
Tennessee	5.0	5.2	4.1	[1,2] 7.9	6.9	7.8	6.5
Texas	5.4	5.8	6.3	5.8	7.0	7.0	6.9
Utah	13.7	14.2	16.3	[2,3] 21.2	21.6	23.0	22.7
Vermont	4.1	4.4	5.0	[2,3] 9.1	7.2	6.7	8.4
Virgin Islands	8.5	4.9	5.3	6.3	4.7	5.0	7.6
Virginia	6.3	5.4	5.0	[2,3] 6.3	7.0	7.3	8.3
Washington	12.5	7.7	8.1	9.2	10.1	9.9	9.8
West Virginia	2.6	3.2	3.6	[2,3] 5.6	5.8	5.2	5.1
Wisconsin	9.5	8.6	8.7	9.5	8.8	8.5	8.8
Wyoming	5.6	5.7	6.3	7.2	7.1	7.3	5.5

---

[1] Increase due in part to increased AFDC child support collections. For explanation, see footnotes for Total Distributed AFDC Collections (1982).

[2] Increase due in part or in whole to decreased AFDC maintenance assistance payments.

[3] Increase due in part or in whole to increased AFDC child support collections resulting from the Federal Tax Refund Offset Program.

Note: Payments to AFDC Unemployed Parent (UP) families have been excluded from the maintenance assistance payments totals in those States having AFDC–UP programs.

Source: Office of Child Support Enforcement.

TABLE 15.—FEDERAL INCOME TAX REFUND OFFSET PROGRAM COLLECTIONS, FISCAL YEARS 1982–1985

State	1982	1983	1984	1985
Alabama	$829,981	$1,554,532	$2,438,075	$3,208,116
Alaska	113,964	211,588	302,922	364,352
Arizona		385,357	748,557	1,061,518
Arkansas	678,754	1,103,566	1,386,540	1,885,789
California	47,278,536	35,033,947	34,378,912	34,926,396
Colorado	1,318,097	3,016,164	2,771,764	2,392,575
Connecticut	6,589,307	4,455,263	4,193,916	4,223,787
Delaware	44,975	165,929	1,113,150	1,284,104
District of Columbia	586,913	566,848	694,106	746,926
Florida	47,460	1,979,829	2,932,974	3,937,836
Georgia	17,724	1,525,893	2,684,691	3,710,746
Guam		13,495	20,822	13,562
Hawaii	311,330	816,566	986,024	846,387
Idaho	1,492,980	1,183,105	1,199,305	1,203,527
Illinois	3,522,114	4,524,565	8,651,417	9,018,581
Indiana	1,278,354	4,939,883	8,537,166	8,975,438
Iowa	4,328,872	5,526,322	6,503,704	6,783,766
Kansas	2,685,617	2,525,333	2,634,443	2,904,537
Kentucky	2,168,561	1,165,135	2,043,980	2,298,529
Louisiana	1,426,863	1,536,006	1,958,915	2,487,475
Maine	664,374	1,844,168	2,114,258	2,126,207
Maryland	7,912,475	5,687,760	6,333,562	6,118,488
Massachusetts	2,139,366	3,324,872	2,992,203	4,224,674
Michigan	20,928,752	18,249,916	19,174,089	20,013,492
Minnesota	7,040,081	5,575,703	5,925,460	5,904,025
Mississippi	1,055,579	1,019,253	1,535,952	1,976,454
Missouri	6,467,902	4,288,944	4,607,125	4,849,186
Montana	177,985	431,107	610,862	857,855
Nebraska		501,968	784,106	1,204,572
Nevada	428,182	354,403	366,334	389,049
New Hampshire	474,129	756,639	545,252	662,364
New Jersey	9,348,364	9,458,355	10,232,231	11,449,337
New Mexico	206,602	533,226	702,254	1,315,407
New York	7,445,728	9,945,365	8,247,539	11,996,379
North Carolina	39,888	4,234,868	4,616,756	4,290,753
North Dakota	320,818	351,782	560,929	534,445
Ohio	649,865	2,885,540	5,145,031	7,229,010
Oklahoma	49,690	702,729	1,796,087	2,178,542
Oregon	7,069,119	3,782,458	3,520,661	3,566,932
Pennsylvania	2,304,759	6,112,433	13,567,884	13,549,899
Puerto Rico		1,742	22,852	13,047
Rhode Island	87,631	838,028	742,855	775,077
South Carolina	138,404	367,589	719,987	832,341
South Dakota	275,351	374,463	510,993	623,409
Tennessee	41,501	641,997	1,221,963	1,591,819
Texas		3,906,440	4,994,786	5,927,713
Utah	3,635,336	2,539,972	2,558,126	2,764,993
Vermont	1,245,080	611,431	590,943	748,212
Virgin Islands				
Virginia	1,435,103	1,674,400	1,946,585	3,532,487
Washington	3,001,125	4,277,743	5,003,042	6,200,914
West Virginia	258,507	1,037,796	1,595,140	1,823,086
Wisconsin	8,340,059	6,265,914	5,102,546	7,973,405
Wyoming	165,555	221,757	191,272	280,427
Nationwide total	168,067,712	175,021,087	204,761,048	229,797,947

Source: Office of Child Support Enforcement.

TABLE 16.—ADMINISTRATIVE EXPENDITURES FOR THE CHILD SUPPORT ENFORCEMENT PROGRAM, FISCAL YEARS 1979–1985

[In thousands of dollars]

State	1979	1980	1981	1982	1983	1984	1985
Alabama	$4,633	$5,368	$5,637	$7,089	$9,132	$10,757	$12,786
Alaska	2,137	2,245	2,422	2,760	4,016	4,314	4,772
Arizona	2,014	3,401	4,659	3,415	5,891	6,550	5,996
Arkansas	2,385	3,191	3,657	4,722	4,539	4,796	5,252
California	75,579	90,486	100,807	112,766	127,171	123,947	131,625
Colorado	3,861	5,497	6,078	6,630	7,987	8,774	8,827
Connecticut	5,463	6,436	7,833	9,462	11,899	12,847	14,252
Delaware	852	1,011	2,512	2,066	3,299	2,105	1,903
District of Columbia	1,652	2,655	3,255	4,267	4,968	4,448	4,424
Florida	7,047	9,709	10,345	14,109	15,718	17,568	21,741
Georgia	3,238	4,148	4,777	7,089	8,208	10,299	11,793
Guam	108	131	161	223	315	319	296
Hawaii	1,408	2,026	2,708	3,094	3,705	4,338	4,902
Idaho	1,063	1,157	1,464	1,684	2,145	2,537	3,016
Illinois	6,930	10,486	14,622	16,627	16,320	18,589	25,515
Indiana	4,269	5,532	6,147	7,619	6,766	7,925	8,887
Iowa	4,239	4,749	5,808	6,231	5,930	5,821	5,805
Kansas	1,819	3,236	3,843	4,660	5,220	4,695	5,586
Kentucky	4,027	4,771	6,012	7,075	7,674	8,143	9,387
Louisiana	7,079	7,818	9,401	10,546	12,860	14,013	16,108
Maine	1,229	1,564	1,863	2,625	2,942	3,217	3,545
Maryland	8,177	10,371	13,973	13,886	16,355	18,484	21,739
Massachusetts	6,710	9,986	14,271	16,533	19,794	23,650	27,515
Michigan	24,614	26,708	30,364	36,575	41,365	44,523	44,750
Minnesota	9,273	11,994	12,937	16,407	17,358	17,760	20,249
Mississippi	1,574	1,722	1,965	2,402	2,936	2,986	3,411
Missouri	5,355	6,385	7,287	7,612	9,080	9,409	11,330
Montana	943	1,002	1,062	1,049	1,128	1,274	1,591
Nebraska	1,378	1,585	2,328	3,770	3,546	4,255	4,729
Nevada	1,891	2,437	3,023	3,130	3,437	3,364	3,572
New Hampshire	847	1,032	1,019	1,483	2,198	2,302	2,576
New Jersey	21,677	24,809	28,578	33,260	36,082	40,267	42,901
New Mexico	1,437	1,859	2,147	2,674	3,200	3,228	3,310
New York	61,665	65,332	63,658	77,830	86,437	89,777	96,001
North Carolina	5,721	7,309	8,705	11,150	12,293	14,059	15,314
North Dakota	702	787	1,024	1,210	1,246	1,458	1,591
Ohio	11,581	15,511	18,307	18,610	19,824	21,286	24,502
Oklahoma	2,771	3,818	4,896	6,128	6,117	5,548	6,336
Oregon	7,475	10,101	11,569	11,300	11,032	12,432	9,826
Pennsylvania	19,639	24,715	29,943	34,527	42,962	39,131	55,596
Puerto Rico	862	1,016	1,654	2,868	3,374	3,462	4,543
Rhode Island	1,079	1,423	1,584	2,033	2,141	2,354	2,456
South Carolina	1,777	1,853	2,215	2,353	2,887	4,445	6,511
South Dakota	1,060	981	1,026	1,175	1,198	1,173	1,335
Tennessee	3,046	4,508	5,504	6,420	7,041	7,026	8,175
Texas	11,733	14,606	14,256	16,492	15,071	14,124	13,960
Utah	3,094	4,208	4,982	5,629	6,789	7,308	8,609
Vermont	649	799	891	812	958	1,181	1,430
Virginia	4,787	6,194	7,038	7,645	7,668	8,029	9,338
Virgin Islands	483	467	323	217	319	424	714
Washington	10,733	12,004	11,826	13,300	16,979	18,934	22,941
West Virginia	1,676	1,929	2,404	2,962	2,550	2,613	2,830
Wisconsin	7,562	12,329	11,375	15,211	20,662	20,157	21,999
Wyoming	160	205	278	380	373	485	749
Nationwide total	383,163	465,604	526,423	611,792	691,106	722,910	808,842

Source: Office of Child Support Enforcement.

TABLE 17.—TOTAL CHILD SUPPORT COLLECTIONS PER DOLLAR OF TOTAL ADMINISTRATIVE EXPENDITURES, FISCAL YEARS 1978–1985

State	1978	1979	1980	1981	1982	1983	1984	1985
U.S. ratio	3.35	3.48	3.17	3.09	2.89	2.93	3.29	3.34
Alabama	.75	1.48	1.22	.89	1.14	.95	1.11	2.00
Alaska	3.19	1.80	2.08	2.45	2.68	2.42	2.39	2.26
Arizona	.88	3.18	2.08	1.88	3.05	1.79	2.18	2.15
Arkansas	1.00	1.64	1.43	1.33	1.18	1.63	1.63	1.90
California	2.15	2.65	2.15	2.00	2.19	2.00	2.31	2.32
Colorado	1.78	1.04	1.00	2.02	2.55	2.15	1.72	2.08
Connecticut	4.20	4.22	4.04	3.78	3.92	3.30	3.36	3.38
Delaware	7.14	6.82	6.39	2.76	3.57	2.45	4.64	5.62
District of Columbia	.73	.66	.62	.59	.60	.71	.87	1.06
Florida	1.20	1.49	1.27	1.64	1.44	1.21	2.43	2.10
Georgia	2.22	1.72	1.56	1.74	1.34	1.64	1.80	2.23
Guam		1.48	.79	.92	1.16	1.24	1.52	1.46
Hawaii	1.71	3.66	3.43	2.79	2.66	2.72	2.37	2.38
Idaho	2.10	2.35	2.52	2.24	2.64	2.17	1.86	1.93
Illinois	2.10	1.55	1.19	.95	1.30	1.96	2.31	2.14
Indiana	2.42	2.13	1.92	2.01	1.91	3.07	3.29	3.79
Iowa	3.49	3.07	3.38	3.71	4.30	4.92	5.69	5.92
Kansas	3.01	2.19	1.66	1.80	2.06	1.90	2.32	2.05
Kentucky	1.14	1.21	3.08	2.45	2.07	2.57	2.75	2.68
Louisiana	1.82	1.79	1.92	1.90	2.12	2.00	1.96	2.13
Maine	3.40	3.72	3.16	3.05	2.84	3.48	3.75	3.98
Maryland	2.14	2.55	2.55	2.52	3.94	4.72	4.15	3.86
Massachusetts	5.12	5.42	4.29	3.71	3.85	3.65	3.55	3.57
Michigan	9.50	10.09	10.86	10.06	6.57	6.62	6.86	7.62
Minnesota	2.15	2.30	2.08	2.32	2.31	2.59	2.94	3.91
Mississippi	.87	1.06	1.24	1.28	1.12	1.66	1.76	2.02
Missouri	.89	1.09	1.52	1.70	2.44	2.00	2.64	3.24
Montana	1.58	1.29	1.52	1.60	1.67	2.14	2.27	2.46
Nebraska	2.10	1.79	1.86	4.65	4.54	5.73	5.76	6.32
Nevada	1.83	1.84	1.26	1.33	1.51	1.62	1.91	2.04
New Hampshire	4.05	2.47	2.16	2.29	3.12	6.29	5.18	4.96
New Jersey	4.16	4.37	3.98	3.82	4.03	3.97	4.55	4.67
New Mexico	1.17	1.17	1.10	1.28	1.30	1.43	1.71	1.90
New York	1.75	2.21	2.22	2.23	1.95	2.02	2.03	2.08
North Carolina	1.50	1.60	1.57	1.98	2.00	2.51	2.65	2.94
North Dakota	1.83	2.45	2.12	1.89	1.91	2.10	2.31	2.29
Ohio	2.50	1.97	1.71	1.72	1.66	1.76	1.95	3.66
Oklahoma	.76	.66	.59	.66	.64	.86	1.36	1.46
Oregon	9.48	11.84	9.55	9.13	4.19	3.25	3.01	4.05
Pennsylvania	9.14	9.51	8.05	7.43	7.26	6.65	8.31	6.68
Puerto Rico	.92	2.22	2.18	1.49	6.06	9.48	24.61	11.95
Rhode Island	3.51	3.31	2.62	2.38	2.65	3.36	3.35	3.52
South Carolina	2.38	1.99	2.43	2.40	2.61	2.58	2.49	1.70
South Dakota	.99	1.33	1.67	1.72	1.81	2.38	2.33	2.36
Tennessee	2.49	2.95	2.47	1.84	2.72	2.71	3.17	2.88
Texas	.74	.70	.68	.82	.84	1.19	1.77	2.17
Utah	1.99	2.14	1.76	1.95	2.12	2.05	2.01	1.95
Vermont	2.24	2.23	2.22	2.47	4.01	2.95	2.44	2.58
Virgin Islands	.40	.54	.74	1.33	3.03	2.14	3.52	3.28
Virginia	.72	1.92	1.41	1.41	1.60	1.78	1.74	1.74
Washington	2.96	2.52	2.36	2.69	2.75	2.45	2.43	2.48
West Virginia	.74	.95	1.02	.98	.89	1.35	1.52	1.66
Wisconsin	3.80	4.53	2.99	3.71	2.84	2.71	3.25	3.73
Wyoming	3.18	3.25	3.25	2.81	2.31	2.72	2.58	1.64

Source: Office of Child Support Enforcement.

TABLE 18.—AFDC CHILD SUPPORT COLLECTIONS PER DOLLAR OF TOTAL ADMINISTRATIVE EXPENDITURES, FISCAL YEARS 1980–1985

State	1980	1981	1982	1983	1984	1985
Alabama	1.22	0.89	1.14	0.85	0.82	1.16
Alaska	.26	.32	.38	.44	.40	.43
Arizona	.27	.26	.37	.25	.33	.27
Arkansas	.75	.73	.64	1.01	1.08	1.20
California	1.05	1.00	1.21	1.08	1.23	1.17
Colorado	.68	.74	.90	1.17	1.02	1.05
Connecticut	2.05	2.00	2.25	1.73	1.71	1.66
Delaware	1.68	.80	.95	.69	1.66	2.02
District of Columbia	.48	.42	.42	.49	.49	.59
Florida	1.11	1.19	1.01	.66	1.74	1.21
Georgia	1.38	1.56	1.14	1.38	1.44	1.63
Guam	.79	.72	.74	.82	.93	.95
Hawaii	1.41	1.15	1.08	1.21	1.03	1.05
Idaho	1.99	1.82	2.02	1.77	1.53	1.43
Illinois	1.07	.84	1.02	1.16	1.31	1.09
Indiana	1.66	1.65	1.53	2.61	2.84	2.77
Iowa	2.69	2.62	2.91	3.29	3.87	4.10
Kansas	1.35	1.57	1.67	1.50	1.73	1.75
Kentucky	.82	.72	.53	.82	.78	1.01
Louisiana	.86	.79	.88	.75	.74	.81
Maine	2.78	2.54	2.28	2.86	3.01	2.97
Maryland	1.27	1.14	1.09	1.70	1.31	1.30
Massachusetts	3.12	2.68	2.44	2.04	1.81	1.68
Michigan	2.91	2.88	2.77	2.36	2.40	2.50
Minnesota	1.36	1.57	1.41	1.48	1.61	1.52
Mississippi	1.14	1.16	1.00	1.55	1.62	1.41
Missouri	.78	.88	1.63	1.27	1.52	1.69
Montana	.83	.98	1.18	1.63	1.78	2.01
Nebraska	1.56	1.30	.84	1.04	1.08	1.24
Nevada	.28	.29	.48	.53	.52	.48
New Hampshire	2.09	2.18	1.55	1.21	1.07	.98
New Jersey	1.24	1.12	1.01	1.14	1.25	1.19
New Mexico	.76	.89	.83	.90	1.10	1.13
New York	.75	.75	.70	.79	.77	.82
North Carolina	1.29	1.35	1.15	1.53	1.49	1.54
North Dakota	1.68	1.51	1.46	1.61	1.61	1.64
Ohio	1.65	1.67	1.62	1.68	1.88	2.23
Oklahoma	.40	.46	.43	.60	1.01	1.04
Oregon	1.40	1.15	1.46	1.15	.98	1.44
Pennsylvania	1.35	1.25	1.18	1.10	1.48	1.13
Puerto Rico	.62	.43	.24	.27	.35	.34
Rhode Island	2.52	2.29	1.90	1.97	2.11	2.09
South Carolina	2.04	2.00	2.00	2.08	1.97	1.19
South Dakota	1.29	1.19	1.22	1.81	1.80	1.73
Tennessee	.92	.64	.92	.79	.92	.72
Texas	.49	.58	.42	.72	.94	1.14
Utah	1.45	1.63	1.79	1.71	1.59	1.33
Vermont	1.87	2.18	3.74	2.74	2.26	2.21
Virgin Islands	.28	.47	.82	.44	.38	.30
Virginia	1.33	1.24	1.36	1.53	1.50	1.49
Washington	1.51	1.63	1.66	1.56	1.54	1.39
West Virginia	.96	.92	.84	1.30	1.48	1.60
Wisconsin	2.34	2.90	2.11	1.92	2.21	2.21
Wyoming	2.29	1.93	1.63	2.12	1.76	1.06
Nationwide total	1.30	1.27	1.28	1.27	1.38	1.36

Source: Office of Child Support Enforcement.

TABLE 19.—NON-AFDC CHILD SUPPORT COLLECTIONS PER DOLLAR OF TOTAL ADMINISTRATIVE EXPENDITURES, FISCAL YEARS 1980–1985

State	1980	1981	1982	1983	1984	195
Alabama	0.00	0.00	0.00	0.09	0.30	.83
Alaska	1.82	2.13	2.30	1.97	1.99	1.83
Arizona	1.81	1.62	2.69	1.55	1.84	1.87
Arkansas	.68	.59	.53	.62	.55	.70
California	1.10	1.00	.98	.92	1.08	1.15
Colorado	.40[1]	1.28	1.65	.98	.70	1.01
Connecticut	1.99	1.78	1.67	1.56	1.65	1.73
Delaware	4.71	1.97	2.63	1.76	2.97	3.60
District of Columbia	.14	.16	.18	.22	.38	.47
Florida	.16	.45	.42	.55	.69	.90
Georgia	.18	.18	.20	.25	.37	.59
Guam	.01	.20	.42	.42	.59	.51
Hawaii	2.02	1.63	1.58	1.51	1.33	1.32
Idaho	.52	.42	.62	.41	.34	.49
Illinois	.11	.11	.28	.80	.99	1.04
Indiana	.26	.36	.39	.46	.44	1.02
Iowa	.69	1.09	1.40	1.64	1.82	1.81
Kansas	.31	.42	.39	.41	.59	.30
Kentucky	2 26	1.73	1.54	1.74	1.96	1.67
Louisiana	1.07	1.11	1.23	1.25	1.22	1.32
Maine	.38	.51	.56	.62	.73	1.01
Maryland	1.28	1.38	2.85	3.02	2.84	2.56
Massachusetts	1.16	1.03	1.41	1.61	1.74	1.89
Michigan	7.96	7.18	3.80	4.26	4.46	5.12
Minnesota	.72	.75	.90	1.11	1.33	1.39
Mississippi	.10	.12	.12	.12	.13	.61
Missouri	.74	.82	.81	.73	1.11	1.55
Montana	.69	.62	.49	.52	.49	.45
Nebraska	.30	3.35	3.70	4.62	4.68	5.08
Nevada	.98	1.04	1.02	1.09	1.39	1.55
New Hampshire	.08	.11	1.56	4.08	4.11	3.98
New Jersey	2.90	2.55	2.95	2.83	3.30	3.47
New Mexico	.34	.39	.47	.53	.62	.77
New York	1.47	1.47	1.25	1.22	1.27	1.25
North Carolina	.28	.62	.85	.98	1.17	1.40
North Dakota	.43	.38	.45	.57	.70	.62
Ohio	.06	.05	.05	.07	.08	1.43
Oklahoma	.19	.20	.21	.26	.35	.42
Oregon	8.15	7.98	2.68	2.30	2.03	2.61
Pennsylvania	6.70	6.18	6.22	5.56	6.83	5.55
Puerto Rico	1.56	1.05	5.82	9.21	24.26	11.61
Rhode Island	.10	.09	.74	1.39	1.24	1.43
South Carolina	.39	.40	.61	.50	.52	.51
South Dakota	.38	.53	.59	.56	.53	.64
Tennessee	1.55	1.20	1.81	1.92	2.25	2.16
Texas	.19	.23	.42	.47	.83	1.03
Utah	.31	.32	.33	.29	.42	.62
Vermont	.35	.29	.27	.21	.18	.37
Virgin Islands	.46	.86	2.21	1.70	3.14	2.98
Virginia	.08	.17	.24	.24	.25	.25
Washington	.85	1.06	1.09	.99	.89	1.08
West Virginia	.07	.06	.05	.05	.04	.05
Wisconsin	.65	.81	.73	.80	1.04	1.52
Wyoming	.96	.88	.68	.61	.82	.58
Nationwide total	1.88	1.82	1.61	1.66	1.90	1.98

Source: Office of Child Support Enforcement.

BEST COPY AVAILABLE

TABLE 20.—CHILD SUPPORT COLLECTIONS PER DOLLAR OF ADMINISTRATIVE EXPENDITURES, FISCAL YEAR 1985

State	Total collections/ total expenditures	AFDC collections/total expenditures	Non-AFDC collections/total expenditures
U.S. total	3.34	1.36	1.98
Alabama	2.00	1.16	.84
Alaska	2.26	.43	1.83
Arizona	2.15	.27	1.88
Arkansas	1.90	1.20	.70
California	2.32	1.17	1.15
Colorado	2.08	1.06	1.02
Connecticut	3.38	1.66	1.72
Delaware	5.62	2.02	3.60
District of Columbia	1.06	.59	.47
Florida	2.10	1.21	.89
Georgia	2.23	1.63	.60
Guam	1.46	.95	.51
Hawaii	2.38	1.05	1.33
Idaho	1.93	1.43	.50
Illinois	2.14	1.09	1.05
Indiana	3.79	2.77	1.02
Iowa	5.92	4.11	1.81
Kansas	2.05	1.75	.30
Kentucky	2.68	1.01	1.67
Louisiana	2.13	.81	1.32
Maine	3.98	2.97	1.01
Maryland	3.86	1.30	2.56
Massachusetts	3.57	1.68	1.89
Michigan	7.62	2.50	5.12
Minnesota	2.91	1.52	1.39
Mississippi	2.02	1.41	.61
Missouri	3.24	1.69	1.55
Montana	2.46	2.01	.45
Nebraska	6.32	1.24	5.08
Nevada	2.04	.48	1.56
New Hampshire	4.96	.98	3.98
New Jersey	4.67	1.19	3.48
New Mexico	1.90	1.13	.77
New York	2.08	.82	1.26
North Carolina	2.94	1.54	1.40
North Dakota	2.29	1.67	.62
Ohio	3.66	2.23	1.43
Oklahoma	1.46	1.04	.42
Oregon	4.05	1.44	2.61
Pennsylvania	6.68	1.13	5.55
Puerto Rico	11.95	.34	11.61
Rhode Island	3.52	2.09	1.43
South Carolina	1.70	1.19	.51
South Dakota	2.36	1.73	.63
Tennessee	2.88	.72	2.16
Texas	2.17	1.14	1.03
Utah	1.95	1.33	.62
Vermont	2.58	2.21	.37
Virgin Islands	3.28	.30	2.98
Virginia	1.74	1.49	.25
Washington	2.48	1.40	1.08
West Virginia	1.66	1.60	.06
Wisconsin	3.73	2.21	1.52
Wyoming	1.64	1.06	.58

Source: Office of Child Support Enforcement.

TABLE 21.—INCENTIVE PAYMENTS TO STATES AND LOCALITIES FOR AFDC COLLECTIONS, FISCAL YEARS 1979–1985

[In thousands of dollars]

State	1979	1980	1981	1982	1983	1984	1985
Alabama	$801	$493	$628	$704	$1,234	$1,578	$3,024
Alaska	7	9	113	158	245	219	278
Arizona	79	116	148	157	198	254	191
Arkansas	247	260	385	412	672	634	749
California	13,868	11,640	9,296	13,891	13,102	30,730	20,276
Colorado	407	524	755	914	1,337	1,077	1,121
Connecticut	440	809	2,325	3,117	2,977	2,551	2,906
Delaware	23	97	300	294	341	420	462
District of Columbia	11	51	169	223	267	356	297
Florida	445	1,380	2,080	1,871	2,108	3,315	3,453
Georgia	384	577	1,078	1,195	1,685	1,783	2,312
Guam	403	0	2	2	4	3	29
Hawaii	234	215	497	413	524	706	700
Idaho	6	64	428	463	471	447	499
Illinois	414	985	1,936	2,527	2,807	2,896	2,767
Indiana	943	1,173	1,502	1,401	2,424	2,570	2,976
Iowa	1,456	1,752	2,106	2,458	3,184	2,580	2,804
Kansas	255	408	770	1,082	1,103	905	1,100
Kentucky	552	463	666	502	896	760	1,072
Louisiana	731	923	1,181	1,202	1,503	1,241	1,461
Maine	61	238	699	892	1,250	1,154	1,253
Maryland	662	1,396	2,131	2,052	3,896	2,849	3,089
Massachusetts	46	1,471	5,597	6,071	6,046	5,202	5,573
Michigan	12,815	11,806	11,550	13,717	13,408	14,522	14,582
Minnesota	1,834	3,369	2,737	4,383	3,826	3,454	3,677
Mississippi	2	20	59	95	310	223	366
Missouri	586	683	888	1,816	1,622	1,609	2,146
Montana	20	25	153	182	274	277	363
Nebraska	265	328	419	423	538	505	691
Nevada	74	97	125	186	224	175	154
New Hampshire	29	109	343	349	374	281	291
New Jersey	4.070	4,350	4,681	4,877	6,037	6,325	5,887
New Mexico	21	80	282	333	434	424	450
New York	8,787	7,499	7,163	8,193	10,308	8,248	9,498
North Carolina	1,021	1,253	1,724	1,898	2,801	2,528	2,809
North Dakota	191	186	219	251	284	276	315
Ohio	3,295	3,836	4,574	4,512	5,010	4,790	6,556
Oklahoma	42	119	326	387	547	672	787
Oregon	296	712	1,845	2,388	1,839	1,572	1,624
Pennsylvania	4,701	4,494	5,399	5,670	6,577	7,122	6,788
Rhode Island	4	10	73	92	127	136	613
Puerto Rico	53	170	505	552	619	570	167
South Carolina	328	283	354	512	698	994	1,015
South Dakota	45	52	118	183	378	249	227
Tennessee	493	576	568	835	782	772	716
Texas	188	491	1,114	959	1,609	1,602	1,878
Utah	596	744	1,238	1,509	1,791	1,397	730
Vermont	22	87	289	453	392	319	379
Virgin Islands	1	4	23	25	21	19	25
Virginia	262	693	1,130	1,502	1,728	1,414	1,658
Washington	202	927	2,817	3,236	3,878	3,419	3,673
West Virginia	31	34	389	369	492	463	537
Wisconsin	3,905	4,313	4,945	4,655	5,417	4,993	4,986
Wyoming	5	15	69	86	117	103	90
Nationwide total	66,255	72,410	90,911	106,632	120,738	133,682	132,071

Source: Office of Child Support Enforcement.

LEGISLATIVE CHANGES IN THE 98TH CONGRESS

In November 1983, the House of Representatives adopted H.R. 4325, the Child Support Enforcement Amendments, which had been developed by the Subcommittee on Public Assistance and Unemployment Compensation and approved by the Committee on Ways and Means. In August 1984, the amendments were signed into law. The new law strengthens the child support enforcement and paternity establishment program. It require States to implement effective enforcement tools and provides incentives to the States to make available services to both AFDC and non-AFDC families. The main provisions of the Child Support Enforcement Amendments of 1984 (P.L. 98-378) are summarized below:

1. Improved child support enforcement through requiring State laws and procedures.—States are required to enact laws establishing the following procedures with respect to their IV-D cases:

A. Mandatory wage withholding for all families (AFDC and non-AFDC) if support payments are delinquent in an amount equal to 1 month's support. States must also allow absent parents to request withholding at an earlier date.

B. Imposing liens against real and personal property for amounts of overdue support.

C. Withholding of State tax refunds payable to a parent of a child receiving IV-D services, if the parent is delinquent in support payments.

D. Making available information regarding the amount of overdue support owed by an absent parent, to any consumer credit bureau, upon request of such organization.

E. Requiring individuals who have demonstrated a pattern of delinquent payments to post a bond, or give some other guarantee to secure payment of overdue support.

F. Establishing expedited processes within the State judicial system or under administrative procedures for obtaining and enforing child support orders, and, at the option of the State, for determining paternity.

G. Notifying each AFDC recipient at least once each year of the amount of child support collected on behalf of that recipient.

H. Permitting the establishment of paternity until a child's 18th birthday.

I. At the option of the State, providing that child support payments must be made through the agency that administers the State's income withholding system if either the custodial or noncustodial parent requests that they be made in this manner.

2. Federal matching of administrative costs.—The Federal matching share is gradually reduced from 70 percent as follows: 68 percent in fiscal years 1988 and 1989, and 66 percent in fiscal year 1990 and each year thereafter.

3. Federal incentive payments.—The prior incentive formula which gave States 12 percent of their AFDC collections (paid for out of the Federal share of the collections) is replaced with a new formula that is designed to encourage States to develop programs that emphasize collections on behalf of both AFDC and non-AFDC families, and to improve program cost effectiveness. The basic incentive payment will be equal to 6 percent of the State's AFDC collections, and 6 percent of its non-AFDC collections. States may qualify for higher incentive payments, up to a maximum of 10 percent of collections, if their AFDC or non-AFDC collections exceed combined administrative costs for both AFDC and non-AFDC components of the program.

The total dollar amount of incentives paid for non-AFDC families may not exceed the amount of the State's incentive payment for AFDC collections for fiscal years 1986 and 1987. However, thereafter the incentive paid for non-AFDC collections will be capped at an amount equal to 105 percent of the incentive for AFDC collections in fiscal year 1988, 110 percent in fiscal year 1989, and 115 percent in fiscal year 1990 and any fiscal year thereafter.

4. Matching for automated management systems used in income withholding and other procedures.—The Act specifies that the 90 percent Federal matching rate that is currently available to States that elect to establish an automatic data processing and information retrieval system may be used, at the option of the State, for the development and improvement of the income withholding and other procedures required in the new law through the monitoring of child support payments, the maintenance of accurate records regarding the payment of child support, and the provision of prompt notice to appropriate officials with respect to any arrearages that occur. Also, the Act specifies that the 90 percent matching is available to pay for the acquisition of computer hardware.

5. Fees for services to non-AFDC families.—States will be required to charge an application fee for non-AFDC cases not to exceed $25. The amount of the maximum allowable fee may be adjusted periodically by the Secretary to reflect changes in administrative costs. The State may charge the fee against the custodial parent, pay the fee out of State funds, or recover the fee from the noncustodial parent.

In addition, at the option of the State, a late payment fee equal to between 3 and 6 percent of the amount of overdue support may be charged to the noncustodial parents of AFDC and non-AFDC families. The State may not take any action which would have the effect of reducing the amount of support paid to the child and will collect the fee only after the full amount of the support has been paid to the child. The late payment fee provision is effective upon enactment.

6. Continuation of support enforcement for AFDC recipients whose benefits are being terminated.—States must provide that families whose eligibility for AFDC is terminated due to the receipt of (or an increase in) child support payments will be automatically transferred from AFDC to non-AFDC status under the IV-D program, without requiring application for IV-D services or payment of a fee.

7. Special project grants to promote improvement in interstate enforcement.—The Secretary is authorized to make demonstration grants to States which propose to undertake new or innovative methods of support collection in interstate cases. The authorization is $7 million in FY 1985, $12 million in FY 1986, and $15 million in FY 1987 and years thereafter.

8. Periodic review of State programs; modification of penalty.—The Director of the Federal Office of Child Support Enforcement is required to conduct audits at least every 3 years to determine whether the standards and requirements prescribed by law and regulations have been met. Under the penalty provision, a State's AFDC matching funds must be reduced by an amount equal to at least 1 but no more than 2 percent for the first failure to comply substantially with the standards and requirements, at least 2 but no more than 3 percent for the second failure, and at least 3 but no more than 5 percent for the third and any subsequent consecutive failures.

9. Extension of sec. 1115 demonstration authority to the child support program.—The sec. 1115 demonstration authority is expanded to include the child support enforcement program under specified conditions.

10. Child support enforcement for certain children in foster care.—State child support agencies are required to undertake child support collections on behalf of children receiving foster care maintenance payments under title IV–E, if an assignment of rights to support to the State has been secured by the foster care agency. In addition, foster care agencies are required to take steps, where appropriate, to secure an assignment to the State of any rights to support on behalf of a child receiving foster care maintenance payments under the title IV–E foster care program.

11. Collection of spousal support.—Child support enforcement services must include the enforcement of spousal support, but only if a support obligation has been established with respect to the spouse, the child and spouse are living in the same household, and child support is being collected along with spousal support.

12. Modification in content of annual report by the Secretary.—The present annual report information requirements are expanded to include data needed to evaluate State programs.

13. Requirement to publicize the availability of child support services.—States must frequently publicize, through public service announcements, the availability of child support enforcement services, together with information as to the application fee for such services and a telephone number or postal address to be used to obtain additional information.

14. State commissions on child support.—The Governor of each State is required to appoint a State Commission on Child Support. The Commission must include representation from all aspects of the child support system including custodial and non-custodial parents, the IV–D agency, the judiciary, the Governor, the legislature, child welfare and social services agencies, and others.

Each State commission is to examine the functioning of the State child support system with regard to securing support and parental involvement for both AFDC and non-AFDC children, including but not limited to such specific problems as: (1) visitation; (2) establishment of appropriate objective standards for support; (3) enforcement of interstate obligations; and (4) additional Federal and State legislation needed to obtain support for all children.

15. Requirement to include medical support as part of any child support order.—The Secretary of Health and Human Services is required to issue regulations to require State agencies to petition to include medical support as part of any child support order whenever health care coverage is available to the absent parent at a reasonable cost. The regulations must also provide for improved information exchange between the State IV-D agencies and the medicaid agencies with respect to the availability of health insurance coverage.

16. Increased availability of Federal parent locator services to State agencies.—The prior law requirement that the States exhaust all State child support locator resources before they request the assistance of the Federal Parent Locator Service is repealed.

17. Extension of medicaid eligibility when support collection results in termination of AFDC eligibility.—If a family loses AFDC eligibility as the result (wholly or partly) of increased collection of support payments under the IV-D program, the State must continue to provide medicaid benefits for 4 calendar months beginning with the month of ineligibility. (The family must have received AFDC in at least 3 of the 6 months immediately preceding the month of ineligibility.)

18. Guidelines for determining support obligations.—Each State must develop guidelines to be considered in determining support obligations.

19. Availability of social security numbers for purposes of child support enforcement.—The absent parent's social security number may be disclosed to child support agencies both through the Federal Parent Locator Service and by the IRS.

20. Collection of overdue support from Federal tax refunds.—Current law requires the Secretary of the Treasury, upon receiving notice from a State child support agency that an individual owes past due support which has been assigned to the State as a condition of AFDC eligibility, to withhold from any tax refunds due that individual an amount equal to any past due support. The act extends this requirement to provide for withholding of refunds on behalf of non-AFDC families, under specified conditions.

21. Wisconsin child support initiative.—The Secretary of HHS is required to grant waivers to the State of Wisconsin to allow it to implement its proposed child support initiative in all or parts of the State as a replacement for the AFDC and child support programs. The State must meet specified conditions and give specific guarantees with respect to the financial well-being of the children involved.

22. Sense of the Congress that State and local governments should focus on the problems of child custody, child support, and related domestic issues.—The act incorporates the language of S. Con. Res. 84 urging State and local governments to focus on the vital issues of child support, child custody, visitation rights, and other related domestic issues that are within the jurisdictions of such governments.

Cost estimates for the major provisions of Public Law 98-378 appear below.

TABLE 21.—CBO ESTIMATES FOR CHILD SUPPORT ENFORCEMENT AMENDMENTS OF 1984 (PUBLIC LAW 98-378)

	Fiscal year—				
	1984	1985	1986	1987	Total
Alter incentive payments to States			15	15	30
Reduce Federal matching to 68 percent in fiscal year 1988; 66 percent in fiscal year 1990					0
Require application fees; optional late payment fees		−5	−10	−10	−25
Mandate State enforcement techniques		−15	−25	−25	−65
Require IRS tax intercept for non-AFDC families thru fiscal year 1989		25	20	10	155
Authorize funds for interstate projects		7	12	15	34
Provide Medicaid for 4 months for families losing AFDC due to child support collection through fiscal year 1988	5	25	25	30	85
Other provisions		15	20	10	45
Impact of H.R. 4325 on CSE case levels:					
CSE expenditures		10	30	55	95
Offsetting effects on public assistance		−5	−20	−30	−55
Total	5	57	67	70	199

Note: The cost of disregarding the first $50 of child support payments is shown in the AFDC section.

The Tax Reform Act of 1984 (Public Law 98-369) was also enacted during the 98th Congress and included two tax provisions pertaining to alimony and child support.

Under prior law, alimony was deductible by the payor and includible in the income of the payee. The new law revises the rules relating to the definition of alimony. Generally, only cash payments that will terminate on the death of the payee spouse will qualify as alimony. Alimony payments, if in excess of $10,000 per year, generally must be payable for at least 6 years and must not decline by more than $10,000. The prior law requirement that the payment be based on a legal support obligation has been repealed and payors are now required to furnish to the IRS the social security number of the payee spouse. A $50 penalty for failure to do so will be imposed. The provision is effective for divorce or separation agreements or orders executed after 1984.

The new law also provides that the $1,000 dependency exemption for a child of divorced or separated parents generally will be allocated to the custodial parent unless the custodial parent signs a written declaration that he or she will not claim the exemption for the year. Each parent may claim the medical expenses that he or she pays for the child, for purposes of computing the medical expense deduction. The provision is effective for taxable years beginning after 1984.

LEGISLATIVE CHANGES IN THE 97TH CONGRESS

The 97th Congress enacted child support legislation in 1981 and 1982 which had the effect of reducing Federal outlays, as shown below. Estimates for savings were made by the Congressional Budget Office.

Changes included in the Omnibus Budget Reconciliation Act of 1981 (Public Law 97-35) and the Tax Equity and Fiscal Responsibility Act of 1983 (Public Law 97-248) are:

TABLE 22.—CBO ESTIMATES FOR PUBLIC LAW 97-35 AND PUBLIC LAW 97-248

[In millions of dollars]

Provision	Fiscal year—				
	1982	1983	1984	1985	1986
Public Law 97-35:					
Collection of past-due child and spousal support from Federal tax refunds	−55	−70	−75	−75	−75
Collection of support for certain spouses	−20	−20	−20	−20	−20
Require absent parents to pay fee for services to non-AFDC families	0	0	0	0	0
Child support obligations owed on behalf of AFDC families not discharged in bankruptcy	−15	−18	−23	−29	−36
Require States to intercept unemployment benefits to enforce child support obligations	−17	−17	−17	−17	−17
Total	−107	−125	−135	−141	−148
	Fiscal year—				
	1983	1984	1985	1986	1987
Public Law 97-248:					
Give States the option of imposing a fee for services to non-AFDC families	−12	−16	−11	−13	−14
Require allotments from pay for support owed by members of the uniformed services	−7	−9	−10	−10	−10
Reimbursement of State agency in initial month of ineligibility for AFDC	−3	−4	−4	−5	−5
Reduce Federal incentive payments and Federal matching percentage	−40	−91	−101	−111	−116
Total	−62	−120	−126	−139	−145

APPENDIX G. FOOD STAMP PROGRAM

The food stamp program is designed to increase the food purchasing power of low-income households to a point where they can buy a nutritionally adequate low-cost diet. The theory behind the program is that a participating household is expected to be able to devote 30 percent of its countable [1] cash income to food, with food stamp benefits making up the difference between that amount and the sum determined to be sufficient to buy an adequate low-cost diet; i.e., the cost of the Department of Agriculture's "Thrifty Food Plan." Thus, an eligible household with no countable cash income receives the maximum monthly food stamp allotment for its size (benefits also vary by household size), while one with some countable cash income receives a lesser allotment—reduced from the maximum at the rate of 30 cents for each dollar of countable cash income. Food stamp benefits are available to nearly all households meeting the *income and liquid assets eligibility tests*, as long as certain household members fulfill employment-related requirements. Unlike other welfare programs, the food stamp program has few *categorical* restrictions on eligibility, such as age, disability, or the presence of children in the household.

ADMINISTRATION AND FUNDING

The food stamp program operates in all 50 States, the District of Columbia, the Virgin Islands and Guam.[2] Through June 1982, it also operated in Puerto Rico. However, in July 1982, the program was legislatively terminated and replaced by a food aid program designed by the Commonwealth and federally funded at $825 million annually; this program grants cash benefits somewhat smaller than food stamp benefits to about 1.4 million persons.[3] The Federal Government, under the authority of the Food Stamp Act of 1977, establishes the rules that govern the program and, with certain minimal variations for Alaska, Hawaii and the territories, they are nationally uniform. States may opt to offer the program or not; but, if a State chooses to offer it, it must offer the program throughout the State.

---

[1] Not all of a household's income is actually counted when determining its food stamp benefits. In effect, this means that the program assumes households can spend about 20–25 percent of their *gross* cash income on food.

[2] The Commonwealth of the Northern Mariana Islands operates a specially designed variant of the food stamp program, with benefit and eligibility rules roughly comparable to those in the 48 States and the District of Columbia, though simplified and somewhat more restrictive. In addition, certain controls are placed on the use of food stamp benefits in order to encourage the production and purchase of local commodities.

[3] The Commonwealth of Puerto Rico's nutritional assistance program provides cash benefits to low-income residents using eligibility tests that are more restrictive than those of the food stamp program. Benefit levels are about 20 percent lower than regular food stamp benefit amounts. For fiscal years 1987 through 1990, the nutritional assistance block grant is to be increased, in stages, to $936,750,000 in fiscal year 1990.

At the Federal level, the program is administered by the U.S. Department of Agriculture's Food and Nutrition Service, which gives direction, through Federal regulations, to States and localities in their administrative tasks, is responsible for the printing and distribution of stamps to the States, and oversees participation by retail food stores and other food outlets. Other Federal involvement includes the Federal Reserve System, through which food stamps deposited in banks by food outlets are redeemed and converted to cash.[4] At the State and local levels, it is administered, along with the AFDC program, by welfare departments which are responsible for determining eligibility and issuing benefits.[5]

The Food Stamp Act provides for 100 percent Federal funding of food stamp benefits.[6] Federal funds also pay Federal administrative costs and 50 percent of most State and local administrative costs.[7] State and local costs associated with computerization and fraud control activities are eligible for 75 percent Federal funding. Administrative costs not borne by the Federal Government are shared by States and localities according to State law.

TABLE 1.—RECENT FOOD STAMP EXPENDITURES

[In millions]

Fiscal year	Benefit expenditures (Federal)	Administrative costs		Total
		Federal	State/local [1]	
1979	$6,480	$515	$388	$7,383
1980	8,685	510	381	9,576
1981	10,630	686	512	11,828
1982	[2] 10,408	[4] 717	[4] 565	11,690
1983	[3] 11,954	[4] 777	[4] 612	13,343
1984	[3] 11,511	[4] 974	[4] 832	13,317
1985 (estimated)	[3] 11,576	[4] 1,046	[4] 937	13,559

[1] Estimated.

[2] Includes $206.5 million for Puerto Rico's nutritional assistance block grant, which began operation in the last quarter of fiscal year 1982.

[3] Includes $800 million for Puerto Rico's nutritional assistance block grant benefits.

[4] Includes administrative costs for Puerto Rico's block grant.

---

[4] Federally supported State employment service offices may also be involved if a State contracts with them to administer portions of the food stamp program's employment-related requirements.

[5] With the Department of Agriculture's approval, Indian tribes may administer the food stamp program on reservations and Indian lands. In certain cases, social security district offices may provide intake services for applicants who are also supplemental security income (SSI) or social security recipients.

[6] In Puerto Rico, Federal funds pay for 100 percent of the benefit costs of its nutritional assistance program and 50 percent of any Commonwealth administrative costs—up to a legislatively established ceiling.

[7] As an incentive for improved administration, a State qualifies for a matching rate of 60 percent if it reduces its rate of erroneous payments below 5 percent of benefits issued and has very low rates of improper denials and under-issuances. In addition, a State may lose a portion or all of its Federal share of administrative expenses if it does not meet certain legislatively established targets for reducing its rate of erroneous payments.

ELIGIBILITY

The food stamp program generally imposes three major tests for eligibility: monthly income limits; liquid assets limitations; and employment-related requirements. However, when provisions of P.L. 99-198 are implemented during 1986, households in which all members receive Aid to Families with Dependent Children (AFDC) or Supplemental Security Income (SSI) will be automatically ("categorically") eligible for food stamps, as long as they meet food stamp employment-related requirements and certain other food stamp rules.

The food stamp household

Generally, all individuals living together and purchasing food and preparing meals in common constitute a food stamp "household" and must apply together; the income and assets of all household members are aggregated in determining eligibility and benefits, and, when judging whether all household members receive cash welfare (AFDC or SSI) for automatic eligibility purposes, the food stamp household definition is used. However, individuals who live together may, in some cases, apply as separate "households" and have only their income and assets considered in determining their eligibility and benefits. The basic rule is that those who purchase food and prepare meals apart from the rest of their residential unit may apply separately. This rule is modified by: (1) a requirement that, except for elderly and disabled individuals,[8] parents, children, and siblings apply together without regard to the "purchase and prepare" rule; (2) a requirement that individuals living in treatment programs for drug addicts or alcoholics, certain small group homes for the disabled, and shelters for battered women and children be treated as separate households without regard to the "purchase and prepare" rule; and (3) an exception providing that elderly individuals who cannot purchase food and prepare meals because of a substantial disability[9] may apply as separate households, as long as the remainder of their residential unit has gross monthly income below certain federally prescribed levels.

Income

In determining eligibility for most households, the Food Stamp program looks at a household's monthly income.[10] Further, it considers both gross and countable monthly income.

Gross income includes all cash income of the household, except for energy assistance, the portion of student aid used for tuition

---

[8] In the food stamp program, "elderly" is defined as age 60 or older. "Disabled" is defined as being in receipt of disability payments under social security or SSI programs, and includes certain severely disabled veterans and their disabled survivors, and some disability retirement annuitants.

[9] The definition of disability for this purpose is significantly more limited than the one generally used for food stamp purposes.

[10] At application, a household's current income is considered. However, for many households, their most recently reported prior month's income is used to set benefits during their period of eligibility. In some cases, annual income is converted to a monthly basis (e.g., where income for a whole year is actually received in a few months).

BEST COPY AVAILABLE

and mandatory fees, reimbursements for expenses, and certain other income required to be disregarded by other Federal laws.

Countable income for households without an elderly or disabled member (see footnote 8) excludes from gross income the following: (1) an inflation indexed standard deduction now standing at $98 per month, regardless of household size;[11] (2) 20 percent of any earned income, in recognition of taxes and work expenses;[12] (3) any work or training-related expenses for the care of a dependent, up to a ceiling of $160 per houshold per month;[13] and (4) any shelter expenses, to the extent they exceed 50 percent of the countable income remaining after all other potential deductions and excluded expenses have been subtracted out, but not in excess of an inflation indexed ceiling ($147 per household per month).[14]

Countable income for households having an elderly or disabled member (see footnote 8) excludes from gross income the following: (1) an inflation indexed standard deduction now standing at $98 per month, regardless of household size (see footnote 11); (2) 20 percent of any earned income (see footnote 12); (3) any work or training-relating expenses for the care of a dependent, up to a ceiling of $160 per household per month;[15] (4) out-of-pocket medical expenses of elderly or disabled household members, to the extent they exceed $35 per month; and (5) any shelter expenses, to the extent they exceed 50 percent of the countable income remaining after all other potential deductions and excluded expenses have been subtracted out (with no limit).

TABLE 2A.—FOOD STAMP DEDUCTION LEVELS

[October 1985 through April 1986]

	48 States and D.C.	Alaska	Hawaii	Virgin Islands	Guam
Monthly standard deduction	$98	$168	$139	$86	$197
Monthly ceiling on dependent care/shelter expense deductions	139	242	199	102	169

---

[11] Inflation indexing of the standand deduction occurs each October. Standard deduction amounts vary for Alaska, Hawaii, the Virgin Islands, and Guam; see tables 2A and 2B.

[12] Effective May 1, 1986, under the terms of P.L. 99-198. Prior to May 1, this earned income deduction is 18 percent.

[13] Effective May 1, 1986, under the terms of P.L. 99-198. Prior to May 1, this dependent care deduction is limited to $139 per household per month, in combination with any excess shelter expense deduction.

[14] Effective May 1, 1986, under the terms of P.L. 99-198. Prior to May 1, this excess shelter expense deduction is limited to an inflation indexed ceiling standing at $139 per household per month. Inflation indexing of this ceiling occurs each October. The ceiling varies for Alaska, Hawaii, the Virgin Islands, and Guam; see tables 2A and 2B.

[15] Effective May 1, 1986, under the terms of P.L. 99-198. Prior to May 1, this dependent care deduction is subject to the ceiling described in footnote 13.

TABLE 2B.—FOOD STAMP DEDUCTION LEVELS

[May through September 1986]

	48 States and D.C.	Alaska	Hawaii	Virgin Islands	Guam
Monthly standard deduction	$98	$168	$139	$86	$197
Monthly ceiling on shelter expense deductions	147	256	210	109	179
Monthly ceiling on dependent care deductions	160	160	160	160	160

In order to qualify for food stamps, all households must have countable monthly income (as calculated with regard to whether or not they have elderly or disabled members) below the Federal poverty levels (see table 3). These poverty levels are adjusted each July to reflect inflation as measured by the Consumer Price Index. In addition, households without an elderly or disabled member must have gross monthly income below 130 percent of the Federal poverty levels (see table 3), also adjusted for inflation each July.

The current limits on countable and gross income in the 48 contiguous States, the District of Columbia, the Virgin Islands, and Guam[16] are as follows, through June 1986:

TABLE 3.—COUNTABLE AND GROSS INCOME ELIGIBILITY LIMITS

[Through June 1986]

Household size	Countable income limits (per month)	Gross income limits (per month)
1 person	$438	$569
2 persons	588	764
3 persons	738	959
4 persons	888	1,154
5 persons	1,038	1,349
6 persons	1,188	1,544
7 persons	1,338	1,739
8 persons	1,488	1,934
Each additional member	+150	+195

Note: These limits are scheduled to increase by approximately 4 percent in July 1986.

Assets [17]

Eligible households not qualifying under automatic eligibility rules for AFDC and SSI recipients must also have liquid assets not exceeding $2,000, or $3,000 in the case of households with elderly members.[18] This liquid assets limit excludes the value of a residence, a portion of the value of motor vehicles, business assets, household belongings, and certain other resources.

---

[16] Limits are higher in Alaska and Hawaii, by 25 and 15 percent, respectively.

[17] This description reflects automatic eligibility for cash welfare recipients under food stamp law as amended by P.L. 99-198, effective May 1, 1986. Prior to May 1, households in which all members are recipients of AFDC may be exempt, at State option, from the food stamp assets test if their income is below prescribed food stamp eligibility standards.

Employment-related requirements [19]

In order to maintain eligibility, non-working, able-bodied adult household members must register for work, and accept suitable employment if offered. Exceptions are provided for: those caring for dependents (disabled or under age 6); those subject to another program's employment requirements; those working at least 30 hours a week (or earning the minimum-wage equivalent); the limited number of post-secondary students who are otherwise eligible; residents of drug addiction or alcoholic treatment programs; those under age 16 or age 60 or older; and those between 16 and 18 if they are not the head of a household or are attending school or a training program. A limited exception, from having to accept employment, is provided for those responsible for the care of a child between 6 and 12 for whom adequate child care is not available.

Work registrants, unless exempted as noted above, may also be required to fulfill employment-related requirements imposed by each State. These may include workfare obligations, job search requirements, or other employment-related or training requirements.

Failure to fulfill employment-related requirements disqualifies the entire household if the head of household fails to comply. In other cases, failure to comply disqualifies the violating household member.

Other limitations

Categorical eligibility restrictions include: (1) a ban on eligibility for households in which the primary wage-earner has voluntarily quit a job without good cause, for 90 days from the date of the voluntary quit; (2) a ban on eligibility for households containing striking members, unless eligible prior to the strike; (3) a ban on eligibility for most non-working post-secondary students without families; (4) a ban on eligibility for illegally or temporarily resident aliens and rules limiting eligibility for legally present aliens with sponsors; (5) a ban on eligibility for persons living in institutional settings, except for those in special small group homes for the disabled, persons living in drug addiction or alcoholic treatment programs, and persons in temporary shelters for battered women and children; and (6) a ban on eligibility for SSI recipients in California and Wisconsin.[20]

Under these eligibility rules, it is estimated that over 30 million persons are eligible for food stamps, nationwide, at any point during the year.

---

[18] These assets limitations reflect food stamp law as amended by P.L. 99-198, effective May 1, 1986. Prior to May 1, the limits are $1,500, or $3,000 in the case of households of two or more with an elderly member.

[19] These employment-related requirements reflect food stamp law as amended by P.L. 99-198, effective on implementation during 1986.

[20] Cash SSI payments have been increased in these States to include an estimated value for food stamp benefits.

Benefits

Food stamp benefits are a function of household size, countable monthly income, the cost of purchasing food using the Department of Agriculture's "Thrifty Food Plan," and, in some cases, geographical location. Maximum monthly allotments equal the cost of the Agriculture Department's Thrifty Food Plan,[21] adjusted for household size and, in some instances, geographical location,[22] and indexed periodically for changes in food prices.[23] A participating household's actual monthly allotment is determined by subtracting, from the maximum for that household's size and location, an amount equal to 30 percent of its countable monthly income—on the assumption that it can afford to spend that much of its own income on food purchases, with the Food Stamp program supplementing its purchasing power to the extent necessary to buy an adequate low-cost diet. In determining benefits, the same countable income calculated when judging eligibility is used.

Maximum monthly food stamp allotments, from which 30 percent of a household's monthly countable income (after subtraction of the various potential deductions) is taken to determine a household's actual benefit, are as follows:

TABLE 4.—MAXIMUM MONTHLY FOOD STAMP ALLOTMENTS

[Through September 1986]

Household size	48 States and D.C.	Alaska [1]	Hawaii	Virgin Islands	Guam
1 person	$80	$111	$124	$103	$118
2 persons	147	204	228	189	217
3 persons	211	293	327	271	311
4 persons	268	372	415	345	395
5 persons	318	442	493	409	470
6 persons	382	530	592	491	564
7 persons	422	586	654	543	623
8 persons	483	670	748	621	712
Each additional person	+60	+84	+94	+78	+89

[1] These allotment levels are for urban Alaska. Benefit levels for rural Alaska are increased by about 40 percent to account for higher food prices in rural areas.

Households with no countable income receive the maximum monthly allotment for their household size, and households with some countable income receive the maximum allotment reduced by 30 percent of their countable, not gross, income. Monthly benefits are expected to average $45 per person in fiscal year 1986.

---

[21] Beginning in October 1982, maximum food stamp allotments were equal to 99 percent of the cost of the Thrifty Food Plan. However, effective November 1984, they were increased to equal the full cost of the plan.

[22] Maximum allotments vary for Alaska, Hawaii, the Virgin Islands, and Guam, because of food costs that differ substantially from those in the 48 contiguous States and the District of Columbia.

[23] Indexed annually, each October, to reflect the change in food prices since the last adjustment.

Minimum monthly allotments vary by household size, type of income, and the extent to which deductions from gross income are claimed. In some cases, income eligibility limits are exceeded before the allotment value is reduced to zero. In these cases, minimum benefits most often range from $10 to $80 per month. In other cases, the benefit is reduced to zero before income eligibility limits are exceeded.

Food stamp benefits are issued monthly. The local welfare agency must either deny eligibility or make food stamps available within 30 days of application and must provide food stamps without interruption if an eligible household reapplies in a timely manner. Households in immediate need because of little or no income and very limited cash assets are required to be treated on an expedited (5-day service) basis. Benefits are issued in three ways: (1) the welfare office may issue the eligible household an "Authorization to Participate" (ATP) document which it then takes to a bank, post office, or other issuing point to pick up its food stamp allotment; (2) the household may be asked to come into the welfare office to pick up its food stamp allotment; or (3) the welfare agency may mail the household its monthly allotment. In some pilot areas, benefits may be issued in cash to elderly or disabled households, or in standardized amounts to other (e.g., AFDC) cash welfare recipients.

USE OF FOOD STAMPS

Typically, participating households use their allotment in grocery stores that have been approved to accept food stamps. To be approved, a store must demonstrate that 50 percent of its food sales are staple foods. In addition, wholesalers may be approved to accept food stamps from retailers in certain instances, and meal service programs of various types may be approved to accept food stamps for meals. Once they have accepted food stamps, retailers, wholesalers, and approved meal service programs deposit them in banks, where they convert immediately to cash and are eventually redeemed, through the Federal Reserve System, by the U.S. Treasury.

Food stamps are issued in booklets and in several denominations, the lowest of which is $1. When change is necessary, all change of $1 or more must be in food stamps; change of 99 cents or less is in cash.

INTERACTION WITH CASH ASSISTANCE PROGRAMS

The food stamp program is intertwined with cash assistance programs in two ways: it is administratively linked to cash assistance at the State and local level and its recipient population is, by and large, made up of cash aid recipients.

At the State and local level, the food stamp program is, for most recipients, administered by the same welfare offices and personnel that administer, under different rules, cash assistance such as AFDC and General Assistance. For most SSI recipients, the Social Security Administration's offices provide intake services for the Food Stamp program. As a result, there is a continuing tension between the different sets of rules used by welfare and social security offices to determine eligibility and benefits.

Less than 20 percent of food stamp households rely solely on nongovernmental sources for their income, although nearly 40 percent have some income from these sources: earnings, private retirement income, alimony, and dividends and interest. The AFDC program contributes to the income of 34 percent of food stamp households, and for almost three-fourths of these households AFDC is their only source of income. Nearly 26 percent of food stamp households receive social security disability or retirement income, and about one-third of them rely entirely on that income. SSI payments are made to 20 percent of food stamp households, one-fourth of whom have no other income. State and local general assistance is received by 6 percent of food stamp households. And, veterans' benefits are made to about 3 percent of food stamp households. Thus, for most persons participating in the food stamp program, food aid represents a second or third form of government payment.

LEGISLATIVE ACTION: 1981–1982

The 97th Congress acted three times to hold down costs of the food stamp program and revise administrative rules: The Omnibus Budget Reconciliation Act of 1981; the Agriculture and Food Act of 1981; and the Omnibus Budget Reconciliation Act of 1982. The Congressional Budget Office (CBO) has estimated these actions held food stamp spending for fiscal year 1982 through fiscal year 1985 nearly $7 billion (or 13 percent) below what would have been spent under pre-1981 law: down $1.5 billion in fiscal year 1982; $1.3 billion in fiscal year 1983; $2 billion in fiscal year 1984; and $2.1 billion in fiscal year 1985.

In addition to numerous changes in administrative rules and actions aimed at reducing fraud and abuse, the cost-saving measures enacted in the 97th Congress consisted primarily of:

Delaying various inflation indexing adjustments that would have increased benefits (for example, no benefit indexing occurred in fiscal year 1982);

Reducing the maximum benefit guarantee to 99 percent (rather than 100 percent) of the cost of purchasing food in the Agriculture Department's Thrifty Food Plan, thereby slightly reducing potential benefits to all recipients (a loss of between $1 and $4 per household per month in the fiscal year 1983 inflation indexing of benefits, for example);

Reducing first-month benefits by prorating them according to the date when a household applies or reapplies;

Changing the rules governing how benefit calculations are rounded off;

Placing a gross income eligibility ceiling of 130 percent of the Federal poverty levels on all households except those with elderly or disabled members;

Replacing the food stamp program in Puerto Rico with an $825-million-a-year nutritional assistance block grant;

Reducing benefits slightly for those with earned income by counting more of their income;

Substantially eliminating eligibility for most strikers and postsecondary students;

Reducing benefits based on estimated household shelter expenses for some recipients;

Allowing States or localities to set up food stamp "workfare" programs;

Setting specific targets for States to meet in reducing the rate of erroneous benefit payments, with penalties for States that do not meet their targets; and

Requiring that many food stamp recipients report monthly on their income and other circumstances, and that States use a recent *prior* month's income in determining benefits rather than projecting benefits based on *current* income.

These actions did *not* cause a direct reduction in benefits for most food stamp households, although they delayed or lowered benefit increases scheduled under previous law. However, some 1 million persons did lose eligibility, and recipients are losing some benefits because of the implementation of rules governing treatment of shelter expenses and earnings, the monthly reporting/prior-month accounting system, certain new administrative rules, and limited funding for Puerto Rico block grant.

LEGISLATIVE ACTION: 1983-1984

The 98th Congress made few significant revisions to food stamp law in 1983 and 1984:

—In Public Law 98-204, some of the Federal requirements for monthly reporting and retrospective budgeting (MRRB) in administering benefits for food stamp recipients were loosened and the Agriculture Department's authority to waive MRRB requirements was greatly increased;

—In the Deficit Reduction Act of 1984 (Public Law 98-369), the ability of State welfare agencies to verify recipients' income and assets through the use of Internal Revenue Service information on unearned income was expanded, and recouping overissued benefits by "intercepting" Federal income tax refunds was permitted; and

—In Public Law 98-473, an across-the-board 1-percent benefit increase was enacted, effective November 1984.

LEGISLATIVE ACTION: 1985

In 1985, the Food Security Act (Public Law 99-198) significantly liberalized food stamp benefit and eligibility rules, and added a requirement that all States implement employment-related requirements for food stamp recipients. The Act also extended the authorization for food stamp appropriations through fiscal year 1990, with annual dollar limits rising from $13 billion in 1986 to $16 billion in 1990. The provisions affecting programs under the Food Stamp Act (including Puerto Rico's nutritional assistance block grant) are expected to add between $500 million and $1.1 billion in new spending over the next 5 years.

Major *new initiatives* in the 1985 legislation included:

- A requirement that States set up an employment and training program of their own design for employable food stamp recipients (including workfare, job search, and training as options);
- Provisions encouraging States to computerize food stamp program operations;
- A prohibition on the collection of sales taxes on food stamp purchases;
- A requirement that households composed entirely of AFDC or SSI recipients be judged automatically eligible for food stamps;
- A prohibition against banks charging fees to retailers for handling food stamps, as long as certain requirements are met;
- An expansion of existing pilot project authority for States and localities to use simplified application and standardized benefit procedures for AFDC, SSI, and Medicaid recipients in the food stamp program;
- Permission for States to disregard the first $50 a month of child support payments as income for food stamp purposes, if the State pays for food stamp benefit cost of doing so; and
- A 6-month moratorium on collecting fiscal sanctions owed by States for high rates of erroneous payments, and a required study of the food stamp quality control system;

Provisions *increasing benefits* in the 1985 legislation included:

- An increase in the earned income deduction from 18 to 20 percent, thereby increasing benefits for those with earnings;
- Provisions significantly increasing the degree to which high shelter costs and dependent-care expenses are taken into account in determining benefits, thereby raising benefis for those with these expenses;
- Provisions expanding the definition of "disabled person" for food stamp purposes, thereby increasing benefits to some not previously classified as disabled by extending to them the special treatment given the elderly and disabled; and
- Increases in the nutritional assistance block grant to Puerto Rico over the next 5 years.

Eligibility liberalizations enacted included:

- Increases in the dollar limits on assets that can be held by eligible households;
- Exclusion of assets having liens against them;
- Liberalization of the treatment of assets of those who are self-employed;
- Liberalization of rules governing disqualification of persons failing to fulfill employment-related requirements; and
- Liberalization of certain rules dealing with disqualification of students in Job Training Partnership Act programs and those attending schools that do not require a high school diploma.

Benefit reduction provisions require:

- Counting earnings to on-the-job trainees under Job Training Partnership Act programs, except for dependents less than 19 years of age;
- Counting all but the tuition and mandatory fee components of education grants and loans, regardless of the form of the aid; and
- Counting the portion of cash welfare payments paid for living expenses without regard to the form of the payment (except for certain types of aid such as emergency or medical assistance).

TABLE 5.—HISTORICAL FOOD STAMP STATISTICS

Fiscal year	Total Federal spending (in millions) [1]	Average monthly participation (in millions of persons)	Average monthly benefits (per person)	4-person maximum monthly allotment [2]
1972 [3]	$1,909	11.1	$13.50	$108
1973	2,208	12.2	14.60	112
1974	2,845	12.9	17.60	116
1975 [4]	4,599	17.1	21.40	150
1976	5,582	18.5	23.90	162
Transition quarter [5]	1,325	17.3	24.40	166
1977	5,399	17.1	24.70	166
1978	5,585	16.0	26.80	170
1979 [6]	6,913	17.7	30.60	182
1980	9,211	21.1	34.40	204
1981	11,353	22.4	39.50	209
1982 [7]	11,113	21.7	39.20	233
1983 [8]	12,759	[9] 23.0	[10] 43.00	[10] 253
1984 [8]	12,375	[9] 22.3	[10] 42.80	[10] 253
1985 (est.) [8]	12,512	[9] 21.3	[10] 45.00	[10] 264

[1] Outlays, including spending for benefits and administration.

[2] At the beginning of the fiscal year.

[3] The first fiscal year in which benefit and eligibility rules were, by law, nationally uniform and indexed for inflation.

[4] The first fiscal year in which food stamps were available nationwide.

[5] July through September 1976.

[6] The fiscal year in which the food stamp purchase requirement was eliminated, promoting increased participation among eligible households.

[7] Includes $206.5 million in funding for Puerto Rico's nutritional assistance block grant.

[8] Includes $825 million in funding for Puerto Rico's nutritional assistance block grant.

[9] Includes 1.4 million persons receiving cash nutritional aid in Puerto Rico.

[10] Does not reflect benefits in Puerto Rico.

Note: Allotment levels were indexed for inflation annually through calendar 1973, and semi-annually from January 1974 through calendar 1980. Since 1980, allotment levels have been increased in January 1981, October 1982, October 1983, October 1984, November 1984, and October 1985 ($268).

Compiled by the Congressional Research Service.

Section 10. Earned Income Tax Credit

The earned income tax credit (EITC), which was added to the Internal Revenue Code in 1975, is intended to give a cash income supplement to working parents with relatively low earnings. The earned income tax credit is a refundable credit. Thus, for tax filers whose income is too low to owe income taxes, or whose tax liability is smaller than their credit, the Internal Revenue Service makes a direct payment of the credit.

ELIGIBILITY

The credit is available to taxpayers who have children and whose adjusted gross income and earned income are both less than $11,000. In order to receive the credit, married couples must be eligible for a dependency exemption for a child, and unmarried taxpayers must maintain a household for a child. A dependency exemption generally is available only if the taxpayer provides more than half the support of the child, and a taxpayer is considered to maintain a household only if over half the household expenses are furnished by that individual. For this purpose, AFDC benefits are considered not to be provided or furnished by the taxpayer. Thus, if more than half of an individual's or couple's income is from AFDC or another source other than their own income or resources, the earned income credit may not be available.

To receive a credit, a person must file an income tax return at the end of the tax year and, if desired, may file an eligibility certificate with his employer in order to receive advance payments of the credit with his paycheck.

BENEFITS

The EITC equals 11 percent of the first $5,000 of earnings, including net earnings from self-employment, and thus may not exceed $550 per family. The size of the credit is unrelated to the number of a worker's dependents. Between earnings of $5,000 and $6,500, the maximum credit of $550 is received. For each dollar of adjusted gross income (or, if higher, earned income) above $6,500 the credit is reduced by 12.22 cents. As a result, it is not available after adjusted gross income equals or exceeds $11,000. Table 1 below shows the amount of the earned income tax credit by amount of earned income.

TABLE 1.—AMOUNT OF EITC BY EARNED INCOME LEVEL [1]

Amount of wages and self-employment income	Earned income tax credit
0	0
$1,000	$110
$2,000	220
$3,000	330
$4,000	440
$5,000	550
$6,000	550
$7,000	489
$8,000	367
$9,000	244
$10,000	122
$11,000	0

[1] Assumes adjusted gross income does not exceed earned income.

INTERACTION WITH AFDC AND FOOD STAMPS

The treatment of EITC for purposes of AFDC and food stamp benefit computations has varied since inception of the credit. When enacted in 1975, EITC was not considered income in determining AFDC and food stamp benefits, and the credit could not be received on an advance basis. Beginning in January 1979 and prior to October 1981, EITC was treated as earned income when actually received. Receipt of the credit on an advance basis was authorized in July 1979.

From October 1981 to September 1984, the amount of the EITC was treated as earned income and was imputed to the family even though it may not have been actually received from the employer as an advance payment. In the Deficit Reduction Act of 1984, the EITC is treated as earned income when it is received.

Under Federal rules, the State has the option of treating a tax refund as either unearned income in the month of receipt or as a resource. However, the amount of the EITC embodied within the tax refund is treated as earned income in the month the refund is received. If the refund is treated as unearned income, it would reduce the amount of the AFDC benefit on a dollar-for-dollar basis.

Food stamp rules do not have a similar requirement. In determining the food stamp benefit, the EITC would be counted as earned income for the month of receipt, if received on an advance basis or as an asset if received in a lump sum at the end of the year.

DATA

For calendar year 1984, earned income tax credits totaled $1.654 billion, of which about $1.174 billion represented Treasury payments in excess of current year tax liability and $0.480 billion offset tax liability. Some 5.8 million families received the credit, which averaged $284 per family. Of total recipients, more than 4 million received direct EITC payments in the form of U.S. Treasury checks. Table 2 below shows the total amount of earned income credits received for each of the calendar years since the inception of the program, the number of recipient families, the amount of the credits received as Treasury checks and the average amount of the credit received per family.

TABLE 2.—TOTAL AMOUNT OF EITC, NUMBER OF FAMILIES RECEIVING THE CREDIT AND THE BUDGET OUTLAYS FOR CALENDAR YEARS 1975 THROUGH 1987

Calendar year to which credit applies	Total amount of EITC (in millions)	Number of families who received EITC (in thousands)	"Refunded" portion of credit [1] (in millions)	Average EITC per family
1975	$1,250	6,215	$900	$201
1976	1,295	6,473	890	200
1977	1,127	5,627	880	200
1978	1,048	5,192	801	202
1979	2,052	7,135	1,395	288
1980	1,986	6,954	1,370	286
1981	1,912	6,717	1,278	285
1982	1,775	6,395	1,222	278
1983	1,794	6,275	1,289	286
1984 [2]	1,654	5,818	1,174	284
1985 [3]	1,942	NA	1,542	NA
1986 [3]	1,844	NA	1,531	NA
1987 [3]	1,803	NA	1,496	NA

[1] This is the portion of the credit that exceeds tax liability, and it is treated as a budget outlay. The rest of the credit is classified as a "tax expenditure." All these credits were paid in the following year until 1979, when advance payments of the credit were permitted, by addition to the worker's paycheck.

[2] Preliminary.

[3] Projection.

NA—Not available.

1984 Legislative Action

1. Increase in EITC.—The Deficit Reduction Act of 1984 increased the credit to its current level. From 1979 through 1984, the credit had been 10 percent of the first $5,000 of earned income. Further, the maximum credit amount of $500 had been reduced by 12.5 cents for each dollar of adjusted gross income (or, if greater, earned income) in excess of $6,000. Thus, the credit had not been available to families with incomes greater than $10,000.

The changes to the earned income credit will reduce revenues by $4 million in 1985, $116 million in 1986, $105 million in 1987, $98 million in 1988 and $90 million in 1989, and increase outlays by $9 million in 1985, $257 million in 1986, $237 million in 1987, $217 million in 1988, and $200 million in 1989.

2. Counting of EITC for AFDC benefit calculations.—Under prior law, States had to assume that an individual received the earned income tax credit on an advance basis regardless of when or if it was received. The act requires States to count the EITC only when actually received.

This provision was estimated to increase AFDC costs by $8 million, $3 million, and $3 million for fiscal years 1985 to 1987, respectively, and reduce food stamp outlays by $4 million, $1 million, and $1 million during fiscal years 1985 to 1987, respectively.

Section 11. SSI Program Description

The Supplemental Security Income (SSI) program is a federally administered income assistance program authorized by title XVI of the Social Security Act. Established by the 1972 amendments to the Act (Public Law 92-603) and begun in 1974, SSI provides monthly cash payments in accordance with uniform, nationwide eligibility requirements to needy aged, blind and disabled persons. The SSI program replaced the former Federal grants to the States for old-age assistance, aid to the blind and aid to the permanently disabled. These grants continue in Guam, Puerto Rico and the Virgin Islands. SSI, however, operates in the Northern Mariana Islands.

BASIC ELIGIBILITY

To qualify for SSI payments, a person must satisfy the program criteria for age, blindness or disability. The aged are defined as persons 65 years and older. The blind are individuals with 20/200 vision or less with the use of a correcting lens in the person's better eye, or those with tunnel vision of 20 degrees or less. Disabled individuals are those unable to engage in any substantial gainful activity by reason of a medically determined physical or mental impairment expected to result in death or that has lasted, or can be expected to last, for a continuous period of at least 12 months. Additionally, a child under age 18 who has an impairment of comparable severity with that of an adult may be considered disabled.

As explained later, disabled SSI recipients who lose eligibility for regular SSI benefits and for medicaid because their earnings have exceeded the "substantial gainful activity" earnings test, but who continue to be medically disabled, can continue to receive cash assistance and medicaid under certain conditions.

SSI BENEFIT STANDARDS

Individuals and couples applying for or receiving SSI benefits are determined to be eligible if their countable income does not exceed certain income benefit standards.

Regular Federal SSI benefit standard

The regular Federal SSI benefit standard for an individual for 1986 is $336 a month and $504 for a couple. As is discussed later, most States supplement the regular Federal SSI benefit standard. The result is a combined regular Federal SSI/State supplementation benefit standard against which countable income is compared in determining eligibility and benefit amount. However, many States limit their supplementation to certain categories of individuals based on specific indicators of need—especially special housing needs. In September 1985, over 404,000 persons, or 9.6 percent of all SSI recipients, were eligible for benefits only because State supplementation increased the benefit standard.

The regular Federal SSI benefit standards are indexed to the Consumer Price Index (CPI) and by the same percentage as Social Security benefits. This occurs through a reference in the SSI law to the Social Security cost-of-living adjustment (COLA) provision. Prior to the Social Security Amendments of 1983 (Public Law 98-21), the SSI and Social Security cost-of-living increases occurred in benefits paid in July. Public Law 98-21 delayed the Social Security and SSI COLA's from July 1983 to January 1984. However, in lieu of a COLA increase in the SSI benefit standard in July 1983, the regular Federal SSI benefit standard was increased in July 1983 by $20 a month for an individual and $30 a month for a couple. Table 1 shows the regular Federal SSI benefit standard from the beginning of the SSI program until the present time.

Living in the household of another

The SSI law provides that if an SSI applicant or recipient is "living in another person's household and receiving support and maintenance in-kind from such person", the value of such in-kind assistance is presumed to equal one-third of the regular Federal SSI benefit standard. The Federal SSI benefit standard applicable to such individual or couple is two-thirds of the regular Federal SSI benefit standard. As shown in table 1, the Federal SSI benefit standard for those determined to be living in the household of another is $224 for an individual and $336 for a couple. These amounts are increased annually since they are two-thirds of the regular Federal SSI benefit standard.

By regulation, the Social Security Administration has established certain criteria for determining whether this benefit standard should be applied. If an individual actually owns or rents the living quarters or contributes their pro rata share to the household's expenses, this lower benefit standard does not apply. In September 1985, 5.9 percent, or 242,000 SSI recipients, had their benefits determined on the basis of this "one-third reduction" benefit standard. Sixty-eight percent of those recipients were receiving benefits on the basis of disability (see table 2).

Of the 26 States that supplement the regular Federal SSI benefit standard, 12 States provide the same amount of supplementation for those whose Federal SSI benefit amount is determined on the basis of the "one-third reduction" Federal standard. Eight States provide a higher State supplementation for such recipients and in seven States the amount of State supplementation is less. In two States, a higher State supplement is provided for the blind and a lower State supplement is provided for the aged.

Medicaid institution/personal needs allowance

When an individual enters a hospital or other medical institution in which a major part of a bill is paid by the Medicaid program, his monthly SSI benefit standard is reduced to $25, beginning with the first full calendar month the individual is in such institution. This amount is intended to take care of small personal expenses, with the cost of maintenance and medical care being provided through other programs. The annual cost-of-living increase for SSI does not apply to the $25 Federal benefit standard and it has not been increased since SSI began in 1974, but some States supplement the $25 Federal payments. Approximately 206,000, or 5 percent, of SSI recipients received benefits in September 1985 on the basis of this benefit standard. For those individuals whose income from non-SSI sources exceeds the $25 benefit standard (including those who previously, when they were not living in a medical institution, were receiving some SSI because their Social Security benefits are less than the regular SSI benefit standard), Medicaid regulations require States to allow such individuals (and other non-SSI Medicaid eligibles) to retain no less than $25 a month of their income as a "personal needs allowance" when their income is applied, along with Medicaid reimbursement, to pay for their institutional medical care. Approximately 600,000 additional individuals in nursing homes are affected by this requirement. Approximately 16 States have exercised their option to supplement this Federal SSI benefit standard. However, SSI regulations do not provide for Federal administration of these State supplements. Approximately 27 States allow some or all of those individuals affected by the Medicaid personal needs allowance regulations to retain more than $25 a month.

TABLE 1.—FEDERAL SSI BENEFIT STANDARDS

[In dollars]

	Eligibility status					
	Single		Couple		Medicaid facilities	Essential person
	Own household	Another household	Own household	Another household		
Jan. 1974–June 1974	140.00	93.34	210.00	140.00	25.00	70.00
July 1974–June 1975	146.00	97.34	219.00	146.00	25.00	73.00
July 1975–June 1976	157.70	105.14	236.60	154.74	25.00	78.90
July 1976–June 1977	167.80	111.87	251.80	167.87	25.00	84.00
July 1977–June 1978	177.80	118.54	266.70	177.80	25.00	89.00
July 1978–June 1979	189.40	126.27	284.10	189.40	25.00	94.80
July 1979–June 1980	208.20	138.80	312.30	208.20	25.00	104.20
July 1980–June 1981	238.00	158.67	357.00	238.00	25.00	119.20
July 1981–June 1982	264.70	176.47	397.00	264.67	25.00	132.60
July 1982–June 1983	284.30	189.54	426.40	284.27	25.00	142.50
July 1983–Dec. 1983	304.30	202.88	456.40	304.27	25.00	152.50
Jan. 1984–Dec. 1984	[1]314.00	209.34	[1]472.00	314.67	25.00	157.00
Jan. 1985–Dec. 1985	325.00	216.67	488.00	325.34	25.00	163.00
Jan. 1986–Dec. 1986	336.00	224.00	504.00	336.00	25.00	168.00

[1] Cost-of-living adjustments to Federal SSI benefit levels are rounded to the next lower whole dollar beginning with the increase effective January 1984.

Source: Office of Research, Statistics, and International Policy, Social Security Administration.

Another benefit standard affecting some persons involves federal payments to an individual who was transferred to SSI from a former State program of aid to the aged, blind and disabled. These payments are increased by $168 monthly to take into account an "essential person" living in the household. An essential person is generally an ineligible spouse or relative whose needs were considered in determining the requirements of an eligible individual under the former State program but who is not eligible for SSI. Some States have categories of State supplementation similar to the "essential persons" category for individuals transferred from the pre-SSI program.

TABLE 2.—NUMBER AND PERCENTAGE DISTRIBUTION OF PERSONS RECEIVING FEDERALLY ADMINISTERED PAYMENTS, BY REASON FOR ELIGIBILITY AND FEDERAL SSI BENEFIT STANDARD/LIVING ARRANGEMENT, SEPTEMBER 1985

Federal benefit standard/living arrangement	Total	Reason for eligibility		
		Aged	Blind	Disabled
Total number	4,127,557	1,515,657	82,082	2,529,818
Total percent	100.0	100.0	100.0	100.0
Regular Federal SSI benefit standard	89.0	90.8	89.3	87.9
Living in the household-of-another Federal SSI benefit standard	5.9	4.7	6.7	6.6
Medicaid institution/personal needs allowance Federal SSI benefit standard	5.0	4.5	4.0	5.4

INCOME DISREGARDS

Under the program, $20 of monthly income from virtually any source (such as social security benefits, but *not* need-tested income such as veterans' pensions) is disregarded. In addition, the first $65 of monthly earned income plus one-half of remaining earnings are disregarded. Table 3 shows the maximum income that an individual and couple can have and still remain eligible for Federal SSI benefits under the regular Federal SSI benefit standards—taking into account these income disregards.

SSI law requires that an SSI applicant or recipient apply for all other benefits for which they are eligible. For example, in September 1985, 71 percent of the aged, 37 percent of the disabled, and 38 percent of the blind receiving SSI were also Social Security recipients.

For the blind and disabled only, the cost of an approved plan to achieve self-support is also disregarded. SSI recipients who receive benefits on the basis of blindness may also disregard work related expenses. For the disabled, only impairment related work expenses may be disregarded. Income received in sheltered workshops and work activity centers is considered earned income and qualifies for earned income disregards.

The value of any in-kind assistance is counted as income unless such in-kind assistance is specifically disregarded by statute. Generally, in-kind assistance provided by or under the auspices of a federally assisted program, or by a State or local government (for example, nutrition, food stamps, housing or social services), will not be counted as income. As described earlier, if an SSI applicant or recipient is living in the household of another and receiving in-kind support and maintenance from him or her, the SSI benefit standard for such an individual will be reduced by one-third of the Federal SSI benefit standard. By regulation, the Social Security Administration has also provided that the value of any in-kind support and maintenance received (other than in the case of those receiving in-kind assistance by reason of living in another's household), is presumed to be equal to no more than one-third of the Federal SSI benefit standard plus $20. The individual can rebut this presumption. If it is determined that the actual value is less than the one-third amount, the lower, actual value will be counted as unearned income.

In legislation enacted in April 1983, in-kind support and maintenance provided by a private nonprofit organization to aged, blind, or disabled individuals must be disregarded under the SSI program if the State determines that the assistance is provided on the basis of need. Another exclusion from income is certain types of assistance provided to help meet home energy needs. Assistance provided to an aged, blind, or disabled individual for the purpose of meeting home energy costs either in cash or in kind and which is furnished by a home heating oil or gas supplier or by a utility company is to be disregarded. Assistance for home energy costs provided in-kind by a private nonprofit organization is also excluded. These provisions are effective through October 1, 1987.

As countable income (total income minus disregarded income) increases, a recipient's SSI payment level decreases. Eligibility for SSI ends when countable income equals the Federal benefit standard plus the amount of applicable State supplementation.

TABLE 3.—MAXIMUM INCOME FOR ELIGIBILITY FOR FEDERAL SSI BENEFITS, 1986

	Receiving only Social Security		Receiving only wage income	
	Monthly	Annually	Monthly	Annually
Individual	$356	$4,272	$757	$9,084
Couple	524	6,288	1,093	13,116

Source: Office of Research, Statistics, and International Policy, Social Security Administration.

RESOURCES

SSI eligibility is restricted to qualified persons who have counted assets of less than $1,700, or less than $2,550 in the case of married couples. The Deficit Reduction Act of 1984 (P.L. 98-369) increased the countable assets limit by $100 a year for an individual and $150 a year for a couple, beginning in calendar year 1985 and each year through calendar year 1989. Prior to January 1, 1985, the assets limit for an individual was $1,500 and $2,250 for a couple. The limit will be $2,000 for an individual and $3,000 for a couple in 1989 and thereafter.

In determining assets, a number of items are not included, such as the individual's home; and, within reasonable limits set by the Secretary of Health and Human Services: Household goods, personal effects, an automobile, and a burial space for the individual, spouse, and members of the immediate family. Regulations place a limit of $2,000 in equity value on excluded household goods and personal effects and exclude the first $4,500 in current market wholesale value of an auto (100 percent of the auto's value if it is used for medical treatment or employment or has been modified for use by a handicapped person or is necessary to perform essential daily activities in unusual climate or terrain). Assets, tools and other property essential to self-support of the blind or the disabled are also excluded.

The cash value of life insurance policies with face values of $1,500 or less are not counted toward the $1,700 or $2,550 countable resources limit. The entire cash value of life insurance policies with face values greater than $1,500 is counted toward the countable resources limit. As an alternative to the life insurance exclusion, an SSI recipient may have excluded from countable resources up to $1,500 in separately identifiable funds set aside for burial expenses. However, term insurance or irrevocable burial trusts will also serve to reduce the $1,500 burial fund limit.

Current law provides that an individual (or eligible spouse) who gives away or sells any nonexcludable resource for less than fair market value for the purpose of establishing SSI or Medicaid eligibility will have any uncompensated value of that resource (the difference between fair market value at the time of the transfer and the amount received for the resource) counted toward the resources limit of $1,700 for an eligible individual and $2,550 for a couple for a period of 24 months from the date of transfer.

The Deficit Reduction Act of 1984 (P.L. 98-369) requires the Internal Revenue Service to furnish the Social Security Administration with certain nonwage information about SSI recipients. The IRS information consists primarily of reports of interest payments submitted to IRS by financial institutions but also includes income from dividends, unemployment compensation, etc. The purpose of the provision was to assist in alerting the Social Security Administration of the potential ownership by SSI recipients of bank accounts in excess of the SSI countable resources limit. A computer match between the IRS tax files and SSI records took place in August 1985, and 164,000 computer matches were released to SSA field offices in October 1985. Only cases involving IRS reports of interest income of $78 or more are being examined under this process. The law requires that before any action is taken based on the match, that there must be an independent verification of the information. The rationale for the $78 tolerance level is that this amount indicates possible resources in excess of the $1,500 resources limit in 1984, assuming a "passbook" rate of 5.25 percent.

SSA is currently conducting an evaluation through a study of a sample of 5,000 of the matches to determine the appropriateness of the tolerance level and the procedures and the resulting savings.

DEEMING OF INCOME AND RESOURCES

The income of an ineligible spouse who lives with an adult SSI applicant or recipient is considered in determining the eligibility and amount of payment to the individual. The income of the parents of a disabled or blind child under the age of 18 is also considered in determining the eligibility and payment for the child. The law also provides that such deeming of income and resources shall occur "except to the extent determined by the Secretary to be inequitable under the circumstances".

By regulation, the Secretary of HHS has provided that in determining the amount of the income of the ineligible spouse or parent to be deemed to the SSI applicant or recipient, the needs of the spouse or parent and other children in the household are taken into account. In addition, the SSI earned income disregards are applied in determining the amount of earned income to be deemed to the SSI applicant or recipient. For example, if the countable income of an ineligible spouse exceeds the difference between the SSI benefit standard for an individual and a couple in that State (including State supplementation) the excess is deemed available to the SSI applicant or recipient.

For example, in a State with no State supplementation the deeming procedure would work as follows in the case of an ineligible spouse earning $500 per month living with an eligible individual with $180 of social security benefits:

Earned income of ineligible individual	$500.00
Less $65	−65.00
Less one-half of remaining earnings ($435)	−217.50
Countable income	217.50
Less difference between SSI payment standard for an individual and couple	168.00
Amount deemed to eligible individual	49.50

Thus, the benefit for the eligible individual will be $126.50 [$336−($180 less $20 exclusion)−$49.50]. Without deeming, the individual would have received $176 [$336−($180 less $20 exclusion)]. The $20 exclusion can only be used once and is first applied to unearned income, which in this example is the $180 of social security income.

Under the Secretary's regulations, that portion of the resources of the spouse or parent are deemed to a recipient which are in excess of the amount that would be allowed if the spouse or parent were applying for SSI payments. There are 54,000 spouse-to-spouse and 17,000 parent-to-child cases of deeming currently in which the deeming reduces the benefit. This does not take into account the number of individuals who are not eligible because of the deeming provision.

In determining the eligibility of aliens applying for SSI, the income and resources of their sponsors are considered. After allowances for the needs of the sponsors and his family, the remainder is deemed available for the support of the alien applicant for a 3-year period after entry into the United States. This provision does not apply to those who become blind or disabled after entry, to refugees, and to persons granted political asylum.

RESTRICTIONS ON SSI ELIGIBILITY OF RESIDENTS OF PUBLIC INSTITUTIONS

An individual who is a resident or an inmate of a public institution is ineligible for SSI unless the institution is a facility approved for Medicaid payments, is receiving such payments on behalf of the person, and these payments represent more than 50 percent of the cost of services provided by the facility to the person. However, SSI payments may be made to persons in publicly operated community residences serving no more than 16 persons. In addition, an amendment adopted in 1983 provides that temporary residents of public emergency shelters can receive SSI payments for up to 3 months in any 12-month period.

STATE SUPPLEMENTATION

State supplementary payments are required by law to maintain income levels of former public assistance recipients transferred to the Federal SSI program. In January 1986, approximately 7,976 recipients were receiving payments based in part or solely because of this provision. States have the option to choose to supplement the Federal SSI benefit standard for both former public assistance recipients and other SSI recipients. At the present time, all but eight States and jurisdictions provide some form of optional State supplementation. Those are: Arkansas, Georgia, Kansas, Mississippi, Northern Mariana Islands, Tennessee, Texas, and West Virginia. States (or local jurisdictions) may elect to administer their supplementary payments themselves or may contract with the Social Security Administration for Federal administration. Seventeen States and the District of Columbia have contracted with the Social Security Administration to administer the State optional supplementation program. Since the SSI program began in 1974, six States have shifted from Federal to State administration of their optional State supplementation program.

Approximately 41 percent of the SSI recipients receive a State supplement. For those SSI recipients, other than those receiving a State supplement because they are living in some type of group living arrangement, the amount of State supplement ranges from $1.70 a month to $269 a month for an individual. At present, 26 States and the District of Columbia supplement the Federal standard for individuals living independently.

Table 18 shows the number of persons receiving State administered payments and federally administered SSI payments by State for September 1985.

Table 4 for individuals living independently and table 5 for couples illustrate the maximum potential payment from Federal SSI, State supplements and food stamps for individuals, with no income, by State. These tables assume that the elderly individual or couple receive an excess shelter deduction of $139 and an excess medical cost deduction of $6 in the food stamp program. Approximately 60 percent of the elderly in the food stamp program take a shelter deduction, and it is estimated that approximately 14 percent of the elderly are allowed a deduction of $139 or more. However, since only 11 percent of the elderly claim a medical cost deduction, the average of medical cost deductions over all elderly recipients (both those who claim and those who do not) was used in the table, instead of the average $50 deduction taken by the small minority who claim it. If the higher medical deduction level were used, food stamp benefits shown in the table would be increased by about $13. For those individuals or couples with no shelter deduction, the monthly food stamp and combined benefit amount would be reduced by $42.00. There is no ceiling on the excess shelter deduction for aged or disabled persons.

TABLE 4.—MAXIMUM POTENTIAL SSI AND FOOD STAMP BENEFITS FOR AGED INDIVIDUALS LIVING INDEPENDENTLY, JANUARY 1986 [1]

State	Maximum SSI benefit	Food stamp benefit [2]	Combined benefits	
			Monthly	Annual
Alabama	$336	$52	$388	$4,656
Alaska	605	54	659	7,908
Arizona	336	52	388	4,656
Arkansas	336	52	388	4,656
California	533	[3] 0	533	6,396
Colorado	394	34	428	5,136
Connecticut*	[4] 508	0	508	6,096
Delaware	336	52	388	4,656
District of Columbia	351	47	398	4,776
Florida	336	52	388	4,656
Georgia	336	52	388	4,656
Hawaii	341	124	465	5,580
Idaho	[5] 408	30	438	5,256
Illinois*	[6] 371	41	412	4,944
Indiana	$336	$52	$388	$4,656
Iowa	336	52	388	4,656
Kansas	336	52	388	4,656
Kentucky	336	52	388	4,656
Louisiana	336	52	388	4,656
Maine	346	49	395	4,740
Maryland	336	52	388	4,656
Massachusetts	465	13	478	5,736
Michigan	364	43	407	4,884
Minnesota	[7] 371	41	412	4,944
Mississippi	336	52	388	4,656
Missouri	336	52	388	4,656
Montana	336	52	388	4,656

TABLE 4.—MAXIMUM POTENTIAL SSI AND FOOD STAMP BENEFITS FOR AGED INDIVIDUALS LIVING INDEPENDENTLY, JANUARY 1986 [1]—Continued

State	Maximum SSI benefit	Food stamp benefit [2]	Combined benefits	
			Monthly	Annual
Nebraska	$391	$35	$426	$5,112
Nevada	372	41	413	4,956
New Hampshire	[8] 376	40	416	4,992
New Jersey	367	42	409	4,908
New Mexico	336	52	388	4,656
New York	408	30	438	5,256
North Carolina	336	52	388	4,656
North Dakota	336	52	388	4,656
Ohio	336	52	388	4,656
Oklahoma	396	34	430	5,160
Oregon	338	51	389	4,668
Pennsylvania	368	42	410	4,920
Rhode Island	392	35	427	5,124
South Carolina	336	52	388	4,656
South Dakota	351	47	398	4,776
Tennessee	336	52	388	4,656
Texas	336	52	388	4,656
Utah	346	49	395	4,740
Vermont	[9] 392	35	427	5,124
Virginia	336	52	388	4,656
Washington	[10] 364	43	407	4,884
West Virginia	336	52	388	4,656
Wisconsin	438	[3] 0	438	5,256
Wyoming	356	46	402	4,824

*Data obtained from State by CRS.

[1] In most States these maximums apply also to blind or disabled SSI recipients who are living in their own households; but some States provide different benefit schedules for each category.

[2] For one-person households, maximum food stamp benefits from Oct. 1985 through Sept. 1986 are $80 in the 48 contiguous States and the District of Columbia, $111 in Alaska (urban areas, benefit levels in rural Alaska are increased by about 50 percent to account for higher food prices in such areas), and $124 in Hawaii.

For the 48 contiguous States and D.C., the calculation of benefits assumes: (1) a "standard" deduction of $98 per month, (2) an excess shelter deduction of $139 per month (the maximum allowable for nonelderly, nondisabled households); and (3) an excess medical expense deduction of $6 monthly (estimated from 1982 medical expense information). If smaller excess shelter costs were assumed, food stamp benefits would be smaller. For Alaska and Hawaii, higher deduction levels were used, as provided by law ($410 and $338, respectively, for combined standard and excess shelter allowance).

[3] SSI recipients in California and Wisconsin are ineligible for food stamps. These States provide increased cash aid in lieu of stamps.

[4] Estimated maximum paid for aged individual with shelter cost of $200 monthly. State decides benefits on a case-by-case basis. Estimate based on 1985 data.

[5] State disregards $20 of SSI payment in determining the State supplementary payment.

[6] Estimated usual maximum paid for aged individual. Assumes shelter allowance of $97. State decides benefits on case-by-case basis. Estimate based on 1985 data.

[7] Payment level for Hennepin County. State has 10 geographic payment levels.

BEST COPY AVAILABLE

[8] State disregards $13 of an individual's income in determining the supplementary payment. The State supplementary payment amount is rounded to next higher dollar.

[9] State has two geographic payment levels—highest are shown in table.

[10] Sum paid in King, Pierce, Kitsap, Snohomish, and Thurston Counties.

Source: Table prepared by the Congressional Research Service (CRS) on the basis of data from the Social Security Administration (except for Connecticut and Illinois).

TABLE 5.—MAXIMUM POTENTIAL SSI AND FOOD STAMP BENEFITS FOR AGED COUPLES LIVING INDEPENDENTLY, JANUARY 1986 [1]

State	Maximum SSI benefit	Food stamp benefit [2]	Combined benefits	
			Monthly	Annual
Alabama	$504	$68	$572	$6,864
Alaska	887	62	949	11,388
Arizona	504	68	572	6,864
Arkansas	504	68	572	6,864
California	989	[3] 0	989	11,868
Colorado	788	0	788	9,456
Connecticut*	[4] 623	33	656	7,872
Delaware	504	68	572	6,864
District of Columbia	534	59	593	7,116
Florida	504	68	572	6,864
Georgia	504	68	572	6,864
Hawaii	513	177	690	8,280
Idaho	[5] 544	56	600	7,200
Illinois*	[6] 537	58	595	7,140
Indiana	504	68	572	6,864
Iowa	504	68	572	6,864
Kansas	504	68	572	6,864
Kentucky	504	68	572	6,864
Louisiana	504	68	572	6,864
Maine	519	64	583	6,996
Maryland	504	68	572	6,864
Massachusetts	706	8	714	8,568
Michigan	546	56	602	7,224
Minnesota	[7] 570	48	618	7,416
Mississippi	504	68	572	6,864
Missouri	504	68	572	6,864
Montana	504	68	572	6,864
Nebraska	588	43	631	7,572
Nevada	578	46	624	7,488
New Hampshire	[8] 545	56	601	7,212
New Jersey	529	61	590	7,080
New Mexico	504	68	572	6,864
New York	597	40	637	7,644
North Carolina	504	68	572	6,864
North Dakota	504	68	572	6,864
Ohio	504	68	572	6,864
Oklahoma	624	32	656	7,872
Oregon	504	68	572	6,864
Pennsylvania	553	54	607	7,284
Rhode Island	609	37	646	7,752

TABLE 5.—MAXIMUM POTENTIAL SSI AND FOOD STAMP BENEFITS FOR AGED COUPLES LIVING INDEPENDENTLY, JANUARY 1986 [1]—Continued

State	Maximum SSI benefit	Food stamp benefit [2]	Combined benefits	
			Monthly	Annual
South Carolina	$504	$68	$572	$6,864
South Dakota	519	64	583	6,996
Tennessee	504	68	572	6,864
Texas	504	68	572	6,864
Utah	524	62	586	7,032
Vermont	[9] 605	38	643	7,716
Virginia	504	68	572	6,864
Washington	[10] 526	62	588	7,056
West Virginia	504	68	572	6,864
Wisconsin	668	[3] 0	668	8,016
Wyoming	544	56	600	7,200

*Data obtained from State by CRS.

[1] In most States these maximums apply also to blind or disabled SSI recipients who are living in their own households; but some States provide different benefit schedules for each category.

[2] For two-person households, maximum food stamp benefits from Oct. 1985 through Sept. 1986 are $147 in the 48 contiguous States and the District of Columbia, $204 in Alaska (urban areas, benefit levels for rural Alaska are about 50 percent higher to account for high food prices in such areas), and $228 in Hawaii.

For the 48 contiguous States and D.C., the calculation of benefits assumes: (1) a "standard" deduction of $98 per month, (2) an excess shelter deduction of $139 per month (the maximum allowable for nonelderly, nondisabled households); and (3) an excess medical expense deduction of $6 monthly (estimated from 1982 medical expense information). If smaller excess shelter costs were assumed, food stamp benefits would be smaller. For Alaska and Hawaii, higher deduction levels were used, as provided by law ($410 and $338, respectively, for combined standard and excess shelter allowance).

[3] SSI recipients in California and Wisconsin are ineligible for food stamps. These States provide increased cash aid in lieu of stamps.

[4] Estimated maximum paid for aged couple with shelter cost of $200 monthly. State decides benefits on a case-by-case basis. Estimate based on 1985 data.

[5] State disregards $20 of SSI income in determining the State supplementary payment amounts.

[6] Estimated usual maximum paid for aged couple. Assumes shelter allowance of $97. State decides benefits on case-by-case basis. Estimate based on 1985 data.

[7] Payment level for Hennepin County. State has 10 geographical payment levels.

[8] State disregards $20 of a couple's SSI income in determining supplementary payment amounts. State supplementary payment amounts are rounded to next higher dollar.

[9] State has two geographic payment levels—highest levels are shown in table.

[10] Sum paid in King, Pierce, Kitsap, Snohomish, and Thurston Counties.

Source: Table prepared by the Congressional Research Service (CRS) on the basis of data from the Social Security Administration (except for Connecticut and Illinois).

STATE SSI SUPPLEMENT LEVELS OVER TIME

Throughout the entire period from July 1975 to January 1986, 23 States have continously provided supplemental SSI payments to aged individuals living independently, and 21 States continuously supplemented SSI payments to aged couples living independently. Four States increased their SSI supplements faster than inflation.

Among the States which have supplemented SSI payments at some time for aged individuals living independently the median has declined by 56 percent in constant dollars from July 1975 to January 1986. During this period Colorado, Michigan, New Hampshire, and Oklahoma were the only States which increased supplements faster than inflation (see table 19).

The District of Columbia, South Dakota, Utah, and Wyoming all began supplementing SSI payments to individuals between 1975 and 1980.

Among the States which have supplemented SSI payments for aged couples living independently, only Alaska, Colorado, Michigan, and Oklahoma have kept their supplemental increases equivalent to or higher than inflation. Overall, the median benefit for those States supplementing benefits at some time has increased from $40 to $49 per month. However, in constant dollars, this represents a 56-percent decline in purchasing power (see table 20).

STATE SUPPLEMENTATION FOR SPECIAL HOUSING NEEDS

A significant number of the aged, disabled and blind population receiving SSI cannot live alone because of mental or physical limitations and have a need for housing which involves services beyond room and board. These services often include supervision for daily living and protective services for the mentally retarded, chronically mentally ill, or the frail or confused elderly. Such nonmedical supervised and/or group living arrangements generally cost more than the Federal SSI benefit needs standard of $336 a month and often more than the combined Federal and SSI State supplementation for those classified as living independently.

All but 8 of the 52 States and jurisdictions have Federal or State administered State supplementation which is specifically directed at covering the additional cost of providing housing in a protective, supervised, or group living arrangement.

These living arrangements are identified by a variety of terms including: adult foster care homes; domiciliary care homes; congregate care; group home for the mentally retarded and a variety of other terms. The amount of supplementation by the State also varies a great deal. For example, in the State of Maryland under a State-administered supplementation program, a "special services" group living facility for the chronically mentally ill has a State supplementation of $638 a month in addition to the Federal benefit level of $336. In addition, the State disregards $72.50 per month of any income, including Federal SSI, in determining the amount of State supplementation. Therefore, the total Federal and State SSI payment in a month is $1,035.50. In other States the State supplementation is less than $50 a month for those who need little supervision and care. However, in some States, the cost of supervised group living care is also partially met by direct State funding of the staff. In a number of States, the State makes payments for nonmedical group care directly to private residential facilities based on a rate negotiated by the State with each facility. In such cases, there is often a "personal needs allowance" payment made directly to or on behalf of the residents of the facility.

SSI OUTREACH

The 1983 Social Security Amendments (P.L. 98-21) mandated the Social Security Administration to conduct an outreach program to those aged individuals and couples whose social security benefits were less than the SSI eligibility levels. Between February and July of 1984 over 7.6 million notices were mailed as part of this one-time alert. The Social Security Administration is preparing a report on the results of this outreach effort based on a sample survey of those who received the notices regarding their possible eligibility for SSI and an examination of administrative records. The report is expected to be available by approximately April 1986.

Administrative records showed a significant increase in the number of applications for SSI on the basis of age in the February–September 1984 period. For example, in May 1984, nearly 30,000 applied for SSI on the basis of age compared to about 12,000 applications in May 1983. Preliminary analysis of the sample survey and administrative records indicate the following: In the February–September 1984 period, 618,000 people contacted the Social Security Administration regarding possible eligibility for SSI. Of these, an estimated 160,000 indicated that they did so as a direct result of the notices sent out. Of those individuals, 116,000 applications for SSI on the basis of age were taken and 86,000 were awarded benefits with an average monthly SSI payment of $60 a month to supplement their social security benefits.

The sample survey responses will also provide information on the 7.6 million people sent the SSI alert notices and separately on the 618,000 people who contacted Social Security including the following: where they live, e.g., nursing or retirement home, renting, home they own; whether they live by themselves, with spouse, with their children, other relatives or others; other sources of income and amount; resources they have, e.g., land, car, life insurance, bank accounts.

SSI AND THE HOMELESS

Evidence that approximately 30–40 percent of residents of emergency shelters for the homeless are the chronically mentally ill, including significant numbers of former residents of mental institutions, has led to the enactment of specific legislation and the development of outreach programs and administrative initatives to better meet the needs of the homeless who may be eligible for SSI.

These initiatives are designed to address special problems related to the characteristics of the homeless: they are often difficult to locate and contact; they have limited ability to find information needed to make application; and they are often incapable or reluctant to follow through with the claim process. While many of the chronically mentally ill live with family or have other ongoing contact with those who can assist them with daily living activities, those mentally ill who are homeless are more likely to have very limited contact with family or others who could assist them in obtaining housing or applying for benefits.

As stated earlier, specific legislative changes were made in 1983 to respond to the needs of the homeless. In-kind support or maintenance provided by a private nonprofit organization must not be counted as income under the SSI program if the State determines that the assistance is provided on the basis of need. While residents of most public institutions except small group homes are not eligible for SSI, a 1983 amendment provided that temporary residents of public emergency shelters can receive SSI benefits for up to 3 months in any 12-month period.

Administrative initiatives by the Social Security Administration to provide assistance to the homeless include:

Outreach.—District office staff of the Social Security Administration have established "contact stations" in shelters in a number of cities. For example, the New York City outreach project has Social Security staff outstationed in seven shelters. By August 1985, 1,187 applications and related contracts were made under this arrangement and the allowance rate has been 53.5 percent for the SSI and social security cases involved.

"Immediate payments".—Beginning in October 1985, local social security offices were given the authority to make "immediate payments" for certain social security and SSI cases when it is found that any delay in payment would result in deprivation of food and/or shelter or endangerment of health. "Immediate" usually means while the beneficiary waits or the next day at the latest. The payments are made using preprinted checks limited to a maximum per beneficiary of $200 or the amount due, whichever is less, in a 30-day period. The person's entitlement to benefits must be verified by the local office. From October through December of 1985, 1,530 individuals have received payments under this procedure.

Pre-release agreements between public mental institutions and local offices of the Social Security Administration have been a procedure available since the beginning of the SSI program. One of the purposes of these, usually informal, agreements is to identify those disabled individuals who upon release from an institution will be in need of immediate assistance if homelessness is to be prevented. Residents of large public institutions including State mental hospitals are not eligible for SSI. Therefore as part of the planning for the release of the patient, there is a determination of their meeting the disability criteria for SSI prior to leaving the institution. In addition, there is a determination that the individual will meet the other SSI eligibility criteria based on a projection of the individual's situation upon leaving the institution. When the decision is favorable, upon release from the institution an SSI payment can be made immediately.

The Social Security Administration is currently evaluating the extent of the use of this potential arrangement and determining any barriers to its effective use in preventing homelessness.

COMPARISON OF SSI PAYMENT LEVELS TO POVERTY THRESHOLDS

Table 6 compares the Federal SSI benefit for a single individual to the poverty threshold (census). Both the poverty threshold and the benefit level are indexed to the Consumer Price Index. (The percentage increase for the poverty threshold and the SSI benefit increase varies slightly because of a difference in the method of calculation.) As a result of Public Law 98-21, the SSI benefit levels were increased by $20 per month for individuals and $30 per month for couples in July 1983. They were further increased by 3.5 percent in January 1984. This explains why SSI benefits, in relation to the poverty level, increased to approximately 75 percent in 1984 and 1985 compared to 71 percent in the 1975 to 1982 period.

For individuals receiving unearned income such as Social Security, the amount of benefits is $240 per year more than the SSI benefit. Because the $240 amount is not indexed, the percent of poverty is approximately the same in 1986 as in 1975 despite the SSI benefit increases.

Table 7 presents the same information for a couple. The SSI benefit for a couple is approximately 90 percent of the poverty threshold. The combined SSI plus Social Security benefit (or other unearned income) decreased from 92 percent to 89 percent of the poverty threshold from 1975 to 1982 but as a result of Public Law 98-21 the percentage became 94 percent in 1984.

TABLE 6.—COMPARISON OF COMBINED BENEFITS TO POVERTY THRESHOLDS FOR ELIGIBLE INDIVIDUALS RECEIVING SSI; SSI AND SOCIAL SECURITY; AND SSI, SOCIAL SECURITY AND FOOD STAMPS FOR SELECTED YEARS: 1975 TO 1986

	Calendar year					
	1975	1980	1982	1984	1985	1986
Poverty threshold	2,572	3,941	4,630	4,980	5,160	[1] 5,340
Federal SSI benefits:						
Dollars per year	1,822	2,677	3,294	3,768	3,900	4,032
Percent of poverty	70.8	67.9	71.1	75.7	75.6	75.5
Federal SSI and social security:						
Dollars per year	2,062	2,917	3,534	4,008	4,140	4,272
Percent of poverty	80.2	74.0	76.3	80.5	80.2	80.0
Federal SSI, social security, and food stamps: [2]						
Dollars per year	2,350	3,345	3,906	4,294	4,368	4,488
Percent of poverty	91.4	84.9	84.4	86.2	84.7	84.0

[1] Factor used to project 1986 poverty threshold (1.035).

[2] In computing the food stamp benefit for 1975, average deductions among all elderly households are assumed. For later years, the applicable standard deduction plus average shelter and medical deductions among all elderly households is assumed.

Source: Congressional Research Service.

TABLE 7.—COMPARISON OF COMBINED BENEFITS TO POVERTY THRESHOLDS FOR ELIGIBLE COUPLES RECEIVING SSI; SSI AND SOCIAL SECURITY; AND SSI, SOCIAL SECURITY AND FOOD STAMPS FOR SELECTED YEARS: 1975 TO 1986

	Calendar year					
	1975	1980	1982	1984	1985	1986
Poverty threshold	3,232	4,954	5,840	6,280	6,510	[1] 6,740
Federal SSI benefits:						
Dollars per year	2,734	4,016	4,940	5,664	5,856	6,048
Percent of poverty	84.6	81.1	84.6	90.2	90.0	89.7
Federal SSI and social security:						
Dollars per year	2,974	4,256	5,180	5,904	6,096	6,288
Percent of poverty	92.0	85.9	88.7	94.0	93.6	93.3

TABLE 7.—COMPARISON OF COMBINED BENEFITS TO POVERTY THRESHOLDS FOR ELIGIBLE COUPLES RECEIVING SSI; SSI AND SOCIAL SECURITY; AND SSI, SOCIAL SECURITY AND FOOD STAMPS FOR SELECTED YEARS: 1975 TO 1986—Continued

	Calendar year					
	1975	1980	1982	1984	1985	1986
Federal SSI, social security, and food stamps: [2]						
Dollars per year	3,430	4,906	5,792	6,393	6,528	6,696
Percent of poverty	106.1	99.0	99.2	101.8	100.3	99.3

[1] Factor used to update 1986 poverty threshold (1.035).

[2] In computing the food stamp benefit for 1975, average deductions among all elderly households are assumed. For later years, the applicable standard deduction plus average shelter and medical deductions among all elderly households is assumed.

Source: Congressional Research Service.

SSI PROGRAM COSTS

Table 8 shows the program costs for the SSI program in fiscal years 1984 and 1985 and estimated costs for fiscal years 1986 and 1987. In fiscal year 1985, approximately $8.6 billion of federally financed payments were made to the aged, blind, and disabled. The Federal Government's cost of administering the program was approximately $1 billion. Federal SSI benefits and the cost of administering the program are financed from general funds from the Treasury. The Social Security Administration also administers the payment of approximately $1.9 billion of State financed State supplementary payments. An additional $300 million was paid out in State administered State supplementation payments.

In fiscal year 1985, of the $8.6 billion of Federal SSI benefits, approximately $6.3 billion, or 72 percent, went to those who were eligible on the basis of disability; $2.1 billion, or 26 percent, to the aged; and $192 million, or 2 percent, to the blind.

In addition to the fact that a higher percent of the total SSI population were eligible on the basis of disability rather than age, the higher percent of Federal SSI payments being for the disabled is also due to the fact that only 36 percent of the disabled have other income in the form of Social Security benefits compared to 71 percent of the aged.

Table 9 shows the total expenditures for the SSI program in each State, including not only the federally administered Federal and State supplementation payments but also the State administered State supplementation payments.

TABLE 8.—SSI FEDERAL PROGRAM COST BY ACTIVITIES

[In millions of dollars]

Program by activities	1984	1985	1986 (estimate)	1987 (estimate)
Direct program:				
Federal benefit payments	7,521	8,638	9,101	9,589
Comparable benefit level [1]	(8,185)	(8,638)	(9,101)	(9,589)
Federal hold-harmless payments	8	0	0	0
Beneficiary services [2]	85	3	7	8
Payments to the trust funds for administrative costs [3]	864	953	978	972
Demonstration	1	4	1	0
Federal fiscal liability	20	9	73	0
Total Federal direct program	8,498	9,606	10,160	10,569

[1] The 1984 total reflects 11 months of benefit payments; and 1985 and 1986 reflect 12 months of payments. The comparable level is based on 12 benefit months in each year.

[2] Includes rehabilitation services provided to blind and disabled individuals, and monitoring of treatment of drug addicts and alcoholics.

[3] Includes cost of administering Federal SSI payments and Federally administered State supplementation. These are not available separately.

Source: Office of Research, Statistics, and International Policy, Social Security Administration.

TABLE 9.—SUPPLEMENTAL SECURITY INCOME: TOTAL PAYMENTS, FEDERAL SSI PAYMENTS, AND FEDERALLY ADMINISTERED AND STATE ADMINISTERED STATE SUPPLEMENTARY PAYMENTS, FISCAL YEAR 1985

[In thousands]

State	Total	Federal SSI	State supplementation	
			Federally administered	State administered
Total	$10,894,534	[1] $8,659,688	[1] $1,923,383	[2] $311,463
Alabama	286,743	271,740		15,003
Alaska	21,863	8,893		12,970
Arizona	84,360	82,166		2,194
Arkansas	140,791	140,791	30	
California	2,437,079	1,148,819	1,288,260	
Colorado	115,210	67,736		47,474
Connecticut	95,901	64,701		31,200
Delaware	16,396	15,939	457	
District of Columbia	43,486	39,381	4,106	
Florida	451,378	443,204	([3])	8,174
Georgia	322,216	322,203	13	
Hawaii	29,897	26,298	3,598	
Idaho	22,300	18,277		4,023
Illinois	375,273	330,782		44,491

TABLE 9.—SUPPLEMENTAL SECURITY INCOME: TOTAL PAYMENTS, FEDERAL SSI PAYMENTS, AND FEDERALLY ADMINISTERED AND STATE ADMINISTERED STATE SUPPLEMENTARY PAYMENTS, FISCAL YEAR 1985—Continued

[In thousands]

State	Total	Federal SSI	State supplementation: Federally administered	State supplementation: State administered
Indiana	105,184	103,993		1,191
Iowa	54,750	53,131	1,620	
Kansas	43,306	43,274	32	
Kentucky	236,971	227,024		9,947
Louisiana	286,119	286,119	51	
Maine	42,004	36,632	5,372	
Maryland	128,721	124,483	76	4,162
Massachusetts	293,891	183,937	109,954	
Michigan	332,391	269,567	62,824	
Minnesota	80,282	63,258		17,024
Mississippi	236,878	236,845	33	
Missouri	181,184	175,157		6,027
Montana	16,899	16,094	805	
Nebraska	34,038	28,713		5,325
Nevada	18,199	15,779	2,421	
New Hampshire	21,382	13,642		7,740
New Jersey	252,967	206,292	46,675	
New Mexico	60,101	59,875		226
New York	1,043,056	817,981	225,075	
North Carolina	333,265	296,816		36,449
North Dakota	13,650	12,467		1,183
Ohio	308,785	308,784	1	
Oklahoma	153,130	122,943		30,187
Oregon	67,669	57,888		9,781
Pennsylvania	427,240	362,037	65,203	
Rhode Island	37,934	29,093	8,842	
South Carolina	183,300	179,368		3,932
South Dakota	16,926	16,427	27	472
Tennessee	278,723	278,717	6	
Texas	509,342	509,342		
Utah	20,277	19,457		820
Vermont	23,063	16,354	6,709	
Virginia	193,113	181,846		11,267
Washington	127,541	107,520	20,022	
West Virginia	105,525	105,524		
Wisconsin	177,884	106,152	71,733	

TABLE 9.—SUPPLEMENTAL SECURITY INCOME: TOTAL PAYMENTS, FEDERAL SSI PAYMENTS, AND FEDERALLY ADMINISTERED AND STATE ADMINISTERED STATE SUPPLEMENTARY PAYMENTS, FISCAL YEAR 1985—Continued

[In thousands]

State	Total	Federal SSI	State supplementation	
			Federally administered	State administered
Wyoming	4,723	4,524		199
Other areas:				
Northern Mariana Islands	1,784	1,784		

---

[1] Payments reduced by $558,000 to reflect returned checks and overpayment refunds not distributed by State.

[2] Excludes data for Iowa, Louisiana and Ohio.

[3] Data not shown; adjustment total exceeds the actual amounts paid during the year.

Table 10 illustrates the total amount of Federal and State benefit payments from calendar year 1970 to 1984. From 1970 to 1973, these were the benefits under the old-age assistance, aid to the blind, and aid to the permanently and totally disabled programs. From 1985 to 1987, these are estimated payment projections. In calendar year 1984, Federal benefit payments totaled $8.284 billion and State payments of $2.091 billion.

TABLE 10.—FEDERAL AND STATE BENEFIT PAYMENTS UNDER SSI AND PRIOR ADULT ASSISTANCE PROGRAMS, CALENDAR YEARS 1970–84 AND ESTIMATED FEDERAL PAYMENTS, FISCAL YEARS 1985–1987

[In millions of dollars]

Calendar year [1]	Total	Federal payments	Total State payments	State payments	
				Federally administered	State administered
1970	2,939	1,801	1,138		
1971	3,206	([2])	([2])		
1972	3,392	1,993	1,398		
1973	3,418	1,987	1,432		
1974	5,246	3,833	1,413	1,264	149
1975	5,878	4,314	1,565	1,403	162
1976	6,066	4,512	1,554	1,388	166
1977	6,306	4,703	1,603	1,431	172
1978	6,552	4,881	1,671	1,491	180
1979	7,075	5,279	1,796	1,590	207
1980	7,941	5,866	2,074	1,848	226
1981	8,593	6,518	2,076	1,839	237

TABLE 10.—FEDERAL AND STATE BENEFIT PAYMENTS UNDER SSI AND PRIOR ADULT ASSISTANCE PROGRAMS, CALENDAR YEARS 1970–84 AND ESTIMATED FEDERAL PAYMENTS, FISCAL YEARS 1985–1987—Continued

[In millions of dollars]

Calendar year [1]	Total	Federal payments	Total State payments	State payments: Federally administered	State payments: State administered
1982	8,981	6,907	2,074	1,798	276
1983	9,404	7,423	1,981	1,711	270
1984	10,372	8,284	2,091	1,792	299
1985 [3]	10,894	8,660	2,234	1,923	311
1986 [3]	11,585	9,260	2,325	2,000	325
1987 [3]	12,255	9,880	2,375	2,030	345

[1] 1970–1973 refers to Old-Age Assistance, Aid to the Blind and Aid to the Permanently and Totally Disabled; 1974–1987 refers to Supplemental Security Income.

[2] Data not available.

[3] Fiscal year estimated payments.

Source: Office of Research, Statistics, and International Policy, and Office of Financial Resources, Social Security Administration.

NUMBER OF RECIPIENTS: 1970–1989 (PROJECTED)

Table 11 illustrates the changes in the number of individuals receiving assistance under the federally administered SSI program and prior programs. The total number of individuals receiving assistance was 3.1 million in 1970; this increased to 4.3 million in 1975 and declined to 3.9 million in 1982 and 1983. It is expected to increase to 4.3 million in 1987 and 4.4 million in 1989. The number of aged receiving SSI has declined sharply since 1975 from 2.3 million (or 2.5 million if disabled over age 65 are counted as aged) to 1.5 million individuals in 1984 (2.0 million if disabled over 65 are counted). The number of disabled receiving assistance increased sharply from 1.0 million in 1970 to 2.0 million in 1975. The number of disabled is projected to be around 3.0 million individuals in 1989.

The number of individuals receiving only State SSI benefits steadily declined from 1978 to 1983 but is expected to increase slightly from 1984 to 1989.

TABLE 11.—NUMBER OF PERSONS RECEIVING FEDERALLY ADMINISTERED SSI PAYMENTS, 1974–1989; AND ADULT ASSISTANCE UNDER PRIOR PROGRAMS, 1970–1973

[In thousands]

Year [1]	Total [2]	Aged [3]	Blind or disabled		Federal SSI [6]	State supplemental only
			Total [4]	65 and older [5]		
1970	3,098	2,082	1,016			
1971	3,172	2,024	1,148			
1972	3,182	1,934	1,248			
1973	3,173	1,820	1,353			
1974	3,996	2,286	1,710	(7)	(8)	(8)
1975	4,314	2,307	2,007	201	3,893	421
1976	4,236	2,148	2,088	249	3,799	437
1977	4,238	2,051	2,187	302	3,778	460
1978	4,217	1,968	2,249	344	3,755	462
1979	4,150	1,872	2,278	386	3,687	462
1980	4,142	1,808	2,334	419	3,682	460
1981	4,019	1,678	2,341	443	3,590	429
1982	3,858	1,549	2,309	462	3,473	384
1983	3,901	1,515	2,386	485	3,590	311
1984	4,029	1,530	2,499	507	3,699	331
1985	4,138	1,504	2,634	525	3,799	339
1986 [9]	4,153	1,488	2,665	586	3,813	340
1987 [9]	4,264	1,453	2,811	618	3,912	352
1988 [9]	4,314	1,423	2,891	636	3,955	359
1989 [9]	4,356	1,396	2,960	651	3,992	364

[1] Data are for December of each year except for 1986–1989 where the data is for March.

[2] All persons with Federal SSI payments and/or Federally administered State supplementation; 1974–1989. For 1970–1973 the total is the number of recipients under the Old-Age Assistance and Aid to the Blind and Aid to the Permanently and Totally Disabled Programs.

[3] For 1970–1973, this column is the number of recipients under the Old-Age Assistance program.

[4] For 1970–1973, this column is the number of recipients under the Aid to the Blind and Aid to the Permanently and Totally Disabled program.

[5] For 1974–1985, this is the number of age 65 and older individuals who first received SSI benefits because of being blind or disabled.

[6] All persons with Federal SSI payments include those receiving Federal payments only or both Federal SSI and Federally administered State supplementation.

[7] Data not available for December 1974. In January 1974, there were 87,000 blind and disabled recipients aged 65 and older.

[8] Data not available.

[9] For 1986 to 1989, these data are projections under current law.

Source: Office of Research, Statistics, and International Policy, and Office of Financial Resources, Social Security Administration.

ELIGIBILITY OF SSI RECIPIENTS FOR MEDICAID

States have three options as to how they treat SSI recipients in relation to Medicaid eligibility. Section 1634 of SSI law allows the Social Security Administration to enter into agreements with

States to automatically cover all SSI recipients with Medicaid eligibility. SSI recipients are not required to make a separate application for Medicaid under this arrangement. Thirty States have chosen this option, and SSI recipients in these States account for approximately 75 percent of all SSI recipients nationwide.

Under the second option, States elect to automatically provide Medicaid eligibility for all SSI recipients, but only if the recipient completes a separate application with the State agency which administers the Medicaid program. The six States of Alaska, Idaho, Kansas, Mississippi, Nevada, and Oregon, affecting about 2.5 percent of SSI recipients nationwide, have elected this option.

The third and most restrictive option is known as the "209(b)" option, under which States may impose Medicaid eligibility criteria which are more restrictive than SSI criteria, so long as the criteria chosen were part of the State's approved Medicaid State plan in January 1972. 209(b) States may be more restrictive in defining blindness or disability, or more restrictive in their financial requirements for eligibility. Many States use this option to impose stricter transfer of assets or relatives' responsibility requirements than SSI. However, aged, blind, and disabled Medicaid applicants must be allowed to spend-down in 209(b) States, regardless of whether or not the State has a medically needy program. Fourteen States use the 209(b) option for Medicaid coverage of aged, blind, and disabled SSI recipients. About 22 percent of the SSI recipient population nationwide lives in these 209(b) States. The 14 States that use this option are:

Connecticut
Hawaii
Illinois
Indiana
Minnesota
Missouri
Nebraska
New Hampshire
North Carolina
North Dakota
Ohio
Oklahoma
Utah
Virginia

ELIGIBILITY OF SSI RECIPIENTS FOR FOOD STAMPS

Except in California and Wisconsin, SSI beneficiaries may qualify for food stamps if they meet the food stamp income and assets requirements. In these two States, the food stamp program is "cashed out"—in other words, these States have chosen to increase State SSI supplemental payments in lieu of food stamps.

The interaction with the food stamp program has important financial implications for a State which desires to increase the income of its SSI recipients by $1.00. Because food stamps are reduced by $0.30 for each additional $1.00 of SSI income including State supplements, the State must expend $1.43 to obtain an effective $1.00 increase in SSI recipients' total income.

CHARACTERISTICS OF THE SSI POPULATION

As shown in table 12, in September 1985, 4.128 million persons received federally administered SSI payments. Of these, 1.516 million received federally administered payments on the basis of being aged, 2.529 million on the basis of being disabled, and 82,082 on the basis of blindness. However, approximately 0.5 million of those receiving benefits on the basis of disability or blindness were over the age of 65. Table 12 also indicates that approximately 2.5 million of those receiving federally administered SSI payments only receive Federal SSI payments, approximately 1.3 million receive a combination of federally financed and State financed payments, and approximately 0.3 million receive State financed supplementation only.

Table 13 shows the trends in the numbers of persons receiving federally administered SSI payments from December 1975 through September 1985, both by reason for eligibility and by age categories. There was a steady decline in the number of SSI recipients from 1975 until 1983. However, in the last 2 years the number of SSI recipients has increased by 230,000.

In summary, the trends in the nature of the SSI population show the following:

—A steady decline in the number of persons receiving SSI benefits on the basis of age from 1975 through 1983 but with the first increase in the number of recipients on the basis of age occurring between 1983 and 1984.

—A steady increase from 107,000 in December 1975 to 225,000 in 1985 of the number of disabled and blind children under 18 receiving SSI benefits.

—A steady increase from 201,000 in December 1975 to 525,000 in September 1985 in the number of persons receiving benefits on the basis of disability or blindness who were age 65 and older.

—A recent sharp increase of 162,000 between 1983 and 1985 in the number of persons ages 22–64 receiving benefits on the basis of disability or blindness which had been preceded by a decline of 62,000 between 1978 and 1982

Characteristics of SSI recipients receiving benefits on the basis of age

Age.—As shown in table 14, of those SSI recipients receiving benefits on the basis of age, i.e., age 65 or older, 38 percent are 80 years of age or older. This is in contrast to the fact that only 21 percent of the population 65 years old or older are age 80 or older.

Sex.—As shown in table 15, 74 percent of those receiving benefits on the basis of age are women.

Race.—Twenty-one percent are black compared to 8 percent of the total population age 65 and older who are black.

Other income.—As shown in table 16, 71 percent of the SSI recipients receiving benefits on the basis of age also receive Social Security benefits. Only 1.4 percent have earned income.

Characteristics of adult SSI recipients receiving benefits on the basis of disability or blindness

Major disabling diagnosis.—Approximately 40 percent of the SSI disabled are eligible on the basis of mental impairments. Approximately 20 percent are on the basis of circulatory disorders. In comparison, only 12 percent of the Social Security disability insurance recipients are eligible on the basis of mental impairments. Circulatory disorders account for 29 percent of the disabling impairments and skeletal impairments account for 19 percent of the impairments of disability insurance recipients. Related to the nature of the impairments of the SSI disabled is the fact that in December 1984, 633,305 or 29 percent of the adult disabled receiving SSI benefits had a representative payee. Representative payees are individuals, agencies or institutions selected by the Social Security Administration to receive and use SSI payments on behalf of the SSI recipient when it has been found necessary by reason of the mental or physical limitations of the recipient.

Age.—When a person who is receiving SSI on the basis of blindness or disability becomes age 65, the Social Security Administration does not convert the individual to eligibility on the basis of age. As shown in table 13, over 22 percent of the SSI adult population receiving benefits on the basis of disability are over age 65.

Sex.—In September 1985, 59 percent of those receiving SSI benefits on the basis of disability and 58 percent on the basis of blindness were women.

Race.—In September 1985, 57.8 percent of those receiving SSI on the basis of disability were white; 27.8 percent were black; 4.1 percent were other races; and in 10.3 percent of the cases, race was not reported.

Other income.—As shown in table 16, 36.9 percent of the disabled and 38.2 percent of the blind received Social Security benefits.

Of the disabled receiving SSI, 4.7 percent had earned income in September 1985. Of the blind, 6.8 percent had earned income in that month.

Characteristics of disabled or blind children receiving SSI

In a study completed in 1979, it was found that 15 percent of all SSI children were in foster care and under the protective custody of State welfare departments or other social welfare agencies or institutions. For over one-half of these children their main disability was mental retardation. They had lived away from their parents an average of 7.5 years and had little or no contact with their parents. In two-thirds of the cases, the children had been placed voluntarily in foster care by their parents.

For those SSI children not in foster care, 42 percent lived in households that had received AFDC or State or local general assistance during the previous year. For the disabled children not in foster care receiving SSI benefits, mental retardation was the main disability in 27 percent of the cases. Other disabling conditions for this group of children included: other diseases of the nervous system (epilepsy, muscular dystrophy, etc.) 15 percent; other mental conditions (schizophrenia, psychosis, etc.) 15 percent; and congenital anomalies (spina bifida, Down's syndrome and hydrocephaleus, etc.) 11 percent.

TABLE 12.—NUMBER OF PERSONS RECEIVING FEDERALLY ADMINISTERED PAYMENTS AND AVERAGE MONTHLY AMOUNT, BY REASON FOR ELIGIBILITY AND TYPE OF PAYMENT, SEPTEMBER 1985

Type of payment	Total	Aged	Blind	Disabled
	Number of persons			
Total	4,127,557	1,515,657	[1] 82,082	[2] 2,529,818
Federal SSI payments	3,789,662	1,332,866	73,703	2,383,093
Federal SSI payments only	2,472,227	930,136	43,930	1,498,161
Federal SSI and State supplementation	1,317,435	402,730	29,773	884,932
State supplementation	1,655,330	585,521	38,152	1,031,657
State supplementation only	337,895	182,791	8,379	146,725
	Average monthly amount			
Total	$227.75	$164.32	$277.04	$264.15
Federal SSI payments	202.33	141.67	231.61	235.35
State supplementation	104.69	102.86	148.58	104.10

[1] Includes approximately 23,000 persons aged 65 and over.
[2] Includes approximately 502,000 persons aged 65 and over.

Source: Office of Research, Statistics, and International Policy, Social Security Administration.

TABLE 13.—SSI: NUMBER OF PERSONS RECEIVING FEDERALLY ADMINISTERED SSI PAYMENTS, BY REASON FOR ELIGIBILITY AND AGE: DECEMBER 1975, DECEMBER 1978, JUNE 1982, SEPTEMBER 1983, SEPTEMBER 1984, SEPTEMBER 1985

[In thousands]

Reason for eligibility and by age categories	December 1975	December 1978	June 1982	September 1983	September 1984	September 1985
Total	4,314	4,217	3,957	3,898	4,020	4,128
Reason for eligibility:						
Aged	2,307	1,968	1,626	1,528	1,548	1,516
Blind	74	77	78	79	80	82
Under 18	3	5	6	6	6	7
18–21	4	3	4	5	5	5
22–64	46	43	44	45	46	47
65 and over	22	25	24	23	23	23
Disabled	1,933	2,172	2,253	2,292	2,392	2,530
Under 18	104	161	188	191	201	218
18–21	90	111	117	122	128	134
22–64	1,559	1,581	1,514	1,517	1,583	1,677
65 and over	179	319	434	462	480	502
Age:						
Under 18	107	166	194	197	207	225
18–21	93	115	121	127	133	139
22–64	1,605	1,624	1,558	1,562	1,629	1,724
65 and over	2,508	2,312	2,084	2,013	2,051	2,041

TABLE 14.—NUMBER AND PERCENTAGE DISTRIBUTION OF ALL ADULTS RECEIVING FEDERALLY ADMINISTERED PAYMENTS, BY REASON FOR ELIGIBILITY AND AGE, DECEMBER 1984

Age	Total	Aged	Blind	Disabled
Total number	3,780,700	1,530,287	72,632	2,177,781
Total percent	100.0	100.0	100.0	100.0
18–21	2.6	....	4.8	4.3
22–29	8.2	....	13.5	13.7
30–39	8.2	....	14.1	13.8
40–49	7.3	....	10.4	12.3
50–59	11.7	....	15.2	19.8
60–64	8.1	....	10.0	13.8
65–69	12.4	14.0	8.8	11.3
70–74	13.7	20.7	8.0	9.0
75–79	11.9	26.6	5.5	1.8
80 or older	16.0	38.7	9.7	.2

TABLE 15.—NUMBER AND PERCENTAGE DISTRIBUTION OF ALL PERSONS RECEIVING FEDERALLY ADMINISTERED PAYMENTS, BY REASON FOR ELIGIBILITY, RACE, AND SEX, SEPTEMBER 1985

Race and Sex	Total	Aged	Blind	Disabled
Total number	4,127,557	1,515,657	82,082	2,529,818
Total percent	100.0	100.0	100.0	100.0
Race:				
White	54.8	49.8	56.7	57.8
Black	25.4	21.3	26.4	27.8
Other	5.0	6.5	5.4	4.1
Not reported	14.8	22.4	11.6	10.3
Sex and race:				
Men	35.1	25.6	42.5	40.6
White	19.5	11.7	25.1	24.1
Black	8.4	4.8	10.5	10.5

TABLE 15.—NUMBER AND PERCENTAGE DISTRIBUTION OF ALL PERSONS RECEIVING FEDERALLY ADMINISTERED PAYMENTS, BY REASON FOR ELIGIBILITY, RACE, AND SEX, SEPTEMBER 1985—Continued

Race and Sex	Total	Aged	Blind	Disabled
Other	2.0	2.3	2.4	1.9
Not reported	5.1	6.8	4.4	4.1
Women	64.8	74.4	57.5	59.4
White	35.3	38.1	31.5	33.7
Black	16.9	16.5	15.9	17.2
Other	3.0	4.2	2.9	2.2
Not reported	9.7	15.6	7.2	6.2

TABLE 16.—NUMBER OF PERSONS RECEIVING FEDERALLY ADMINISTERED PAYMENTS AND PERCENT IN CONCURRENT RECEIPT OF INCOME AND AVERAGE MONTHLY AMOUNT, BY REASON FOR ELIGIBILITY AND TYPE OF INCOME, SEPTEMBER 1985

Type of income	Total	Reason for eligibility		
		Aged	Blind	Disabled
Total number	4,127,557	1,515,657	82,082	2,529,818
		Number		
Social security benefits	49.5	71.1	38.2	36.9
Other unearned income	11.9	15.0	12.3	10.0
Earned income	3.7	1.4	6.8	5.0
		Average monthly income		
Social security benefits	$251	$255	$265	$247
Other unearned income	91	76	95	104
Earned income	135	138	448	121

Source: Office of Research, Statistics, and International Policy, Social Security Administration.

TABLE 17.—NUMBER OF PERSONS RECEIVING FEDERALLY ADMINISTERED SSI PAYMENTS AND UNEARNED INCOME (OTHER THAN SOCIAL SECURITY) AND AVERAGE MONTHLY UNEARNED INCOME BY TYPE OF INCOME, SEPTEMBER 1985

Type of income	Number [1]	Average [2]
Total	490,863	$91
Veterans' benefits	114,254	131
Railroad retirement	5,971	244
Black lung benefits	1,632	217
Employment pensions	29,737	96
Workmen's compensation	1,772	187
Support and maintenance in kind	149,605	70

TABLE 17.—NUMBER OF PERSONS RECEIVING FEDERALLY ADMINISTERED SSI PAYMENTS AND UNEARNED INCOME (OTHER THAN SOCIAL SECURITY) AND AVERAGE MONTHLY UNEARNED INCOME BY TYPE OF INCOME, SEPTEMBER 1985—Continued

Type of income	Number [1]	Average [2]
Support from absent parents	15,270	$109
Asset income	103,378	12
Assistance based on need	7,882	90
Other	61,362	173

[1] With unearned income other than social security benefits.

[2] Monthly amount of unearned income.

Source: Office of Research, Statistics, and International Policy, Social Security Administration.

SPECIAL SSI BENEFITS, CONTINUED MEDICAID SERVICES, AND RELATED PROVISIONS FOR THE WORKING DISABLED

The Disability Amendments of 1980 (Public Law 96-265) amended the SSI law to include provisions intended to lessen the work disincentives for SSI disabled recipients who risked the loss of SSI and Medicaid when they increased their work effort and earnings in spite of the continuation of their disability.

Under the SSI and disability insurance criteria for determining disability in the Social Security Act, the Secretary of Health and Human Services is required to prescribe the criteria for determining when employment or earnings from employment demonstrate an individual's ability to engage in substantial gainful activity (SGA), and is, therefore, no longer disabled. Current regulations have established that average counted earnings of over $300 a month (over an extended period, generally not less than 6 months) indicate that an individual is able to engage in SGA. There is also a "trial work period" for disabled SSI recipients and disability insurance recipients during which time an individual's employment activities and earnings are not used as criteria for determining whether an individual meets the disability criteria.

The 1980 amendments added the following provisions to deal with such types of work disincentives faced by the disabled:

Impairment-related work expenses

A permanent change was made in SSI and disability insurance law to provide for a deduction from earnings for purposes of determining whether an individual is engaging in substantial gainful-activity of the cost to individuals of extraordinary impairment-related work expenses. This includes, for example, attendant care costs, the cost of medical devices, equipment, and services and drugs necessary to control an impairment. These deductions are allowed regardless of whether these items are also needed to enable him or her to carry out normal daily functions. The disregard is applied only where the individual paid the cost of the impairment-related expense. In addition, impairment-related work expenses are disregarded in determining the monthly SSI payment of a disabled SSI recipient. In December 1985, based on a sample of SSI cases, ap-

BEST COPY AVAILABL

proximately 2,000 SSI recipients were credited with impairment-related work expenses.

Section 1619 Program: Special SSI benefits and continuation of Medicaid for the working disabled

Section 1619(a) of the SSI law provides that an individual who lost eligibility for SSI because he or she worked and demonstrated the ability to perform SGA, but who continued to have a disabling impairment, might become eligible for special SSI benefits until their countable income reached the SSI income disregard "breakeven point." In a State with no supplementation, as shown in table 3, this earned income eligibility limit is $756 per month in 1986. People who receive the special SSI benefits continue to be eligible for Medicaid on the same basis as regular SSI recipients. States have the option of supplementing the Federal benefits standard for those entitled to benefits under this provision. The "breakeven point" increases two dollars for every one dollar of State supplementation above the Federal SSI benefit standard.

Information available from the Social Security Administration showed that in August 1984, 406 SSI recipients were receiving these special SSI benefits. Sixty percent of such individuals were ages 18-29 compared to 23 percent of all disabled SSI recipients ages 18-64 being under the age of 30.

Under section 1619(b), individuals can continue to be eligible for Medicaid even if their earnings take them past the SSI income disregard "breakeven point." This special eligibility status, under which the individual is considered a blind or disabled individual receiving SSI benefits for purposes of Medicaid eligibility, applies as long as the individual: (1) continues to be blind or have a disabling impairment; (2) except for earnings, continued to meet all the other requirements for SSI eligibility; (3) would be seriously inhibited from continuing to work by the termination of eligibility for Medicaid services; and (4) had earnings that are not sufficient to provide a reasonable equivalent of the benefits (SSI, State supplementary payments, and Medicaid) that would have been available if he or she did not have those earnings.

In making an initial determination under the fourth criterion, the Social Security Administration decided to compare the individual's gross earnings to a "threshold" amount; i.e., the average expenditures for Medicaid benefits for disabled SSI cash recipients in the individual's State of residence. According to the Social Security Administration, from data obtained in August of 1984, approximately 6,800 former SSI recipients retained their Medicaid eligibility under the provisions of section 1619(b). Similar to the section 1619(a) population, over 57 percent of such individuals were age 18-29 compared to 23 percent of all disabled recipients of SSI, ages 18-64.

The Social Security Disability Reform Act of 1984 (Public Law 98-460) extended section 1619 beyond its original expiration date of December 31, 1983. Section 1619 is now effective through June 30, 1987.

The legislation to extend section 1619 included a requirement that the Departments of HHS and Education make an intensive effort to disseminate information about the provisions of section

1619. During 1985, the Social Security Administration provided special training for staff in their district offices, and assisted public and private groups serving or advocating for the disabled to prepare and disseminate information about the 1619 program and other provisions of the law intended to lessen work disincentives.

By mid-1986, a report will be submitted to Congress by the Social Security Administration and the Health Care Financing Administration, regarding the characteristics of the individuals benefiting from section 1619, the effects on work efforts and the types of health care services utilized and their costs.

Extended trial work period

The 1980 amendments made a permanent change in the trial work period provision for both the SSI disabled and the disability insurance program. The amendment extended the trial work period from the previous 9 months—plus 3 months of continued benefits—to 24 months. In the last 12 months of the 24-month period, an individual who is performing SGA immediately following the 9-month trial work period would not receive disability insurance benefits or regular SSI benefits while engaging in SGA, but would automatically be reinstated to active disability insurance or regular SSI status if earnings fall below the SGA level and they are otherwise eligible for benefits.

TABLE 18.—NUMBER OF PERSONS RECEIVING SSI PAYMENTS BY STATE, SEPTEMBER 1985

State	Federally administered				State administered total [2]
	Total [1]	Aged	Blind	Disabled	
Total	4,127,557	1,515,657	82,082	2,529,818	274,373
Alabama	130,420	62,677	1,830	65,913	23,157
Alaska	3,469	1,130	61	2,278	[3] 4,726
Arizona	32,807	10,471	667	21,669	2,814
Arkansas	73,393	34,869	1,358	37,166	....
California	681,050	267,784	19,445	393,821	....
Colorado	29,733	9,573	423	19,737	33,689
Connecticut	26,344	6,576	499	19,269	13,982
Delaware	7,376	2,062	155	5,159	....
District of Columbia	15,946	4,058	222	11,666	....
Florida	182,768	79,474	3,020	100,274	9,513
Georgia	152,964	60,906	2,838	89,220	....
Hawaii	11,202	4,821	188	6,193	....
Idaho	8,292	2,183	131	5,978	2,833
Illinois	132,928	31,285	2,309	99,334	42,499
Indiana	47,112	11,806	1,272	34,034	332
Iowa	27,188	8,709	1,043	17,436	....
Kansas	21,033	5,913	336	14,784	....
Kentucky	98,550	34,805	2,112	61,633	7,330
Louisiana	125,560	50,112	2,198	73,250	....

TABLE 18.—NUMBER OF PERSONS RECEIVING SSI PAYMENTS BY STATE, SEPTEMBER 1985—Continued

State	Federally administered				State administered total [2]
	Total [1]	Aged	Blind	Disabled	
Maine	22,050	8,101	288	13,661	....
Maryland	51,397	14,729	769	35,899	1,114
Massachusetts	112,821	53,361	5,013	54,447	....
Michigan	121,870	30,005	2,074	89,791	....
Minnesota	32,332	10,084	646	21,602	10,614
Mississippi	111,663	51,797	1,782	58,084	....
Missouri	78,729	28,796	1,186	48,747	[4] [5] 12,377
Montana	7,544	1,920	129	5,495	....
Nebraska	13,900	4,149	253	9,498	7,861
Nevada	7,956	3,551	487	3,918	....
New Hampshire	6,216	1,795	118	4,303	4,608
New Jersey	92,675	30,282	1,225	61,168	....
New Mexico	26,205	9,329	511	16,365	240
New York	355,303	113,953	4,121	237,229	....
North Carolina	138,219	55,080	2,903	80,236	12,502
North Dakota	6,557	2,514	84	3,959	[4] 24
Ohio	127,164	27,112	2,506	97,546	....
Oklahoma	59,383	25,383	950	33,050	55,366
Oregon	25,061	6,596	557	17,908	[5] 13,007
Pennsylvania	163,170	46,303	3,055	113,812	....
Rhode island	15,726	5,217	220	10,289	....
South Carolina	85,601	33,847	1,918	49,836	2,673
South Dakota	8,459	3,189	148	5,122	327
Tennessee	128,459	50,521	2,047	75,891	....
Texas	254,344	124,109	4,614	125,621	....
Utah	8,650	1,937	209	6,504	7,196
Vermont	9,267	3,013	118	6,136	....
Virginia	85,217	31,661	1,485	52,071	4,728
Washington	47,823	12,222	721	34,880	....
West Virginia	42,609	10,986	701	30,922	....
Wisconsin	70,224	23,884	1,075	45,265	....
Wyoming	2,204	702	45	1,457	[5] 861
Unknown	18	5	....	13	....
Northern Mariana Islands [3]	606	310	17	279	....

---

[1] Includes persons with Federal SSI payments and/or federally administered State supplementation, unless otherwise indicated.

[2] Represents September 1985 data. Excludes data for Iowa, Louisiana, and Ohio; data not available.

[3] Estimated data.

[4] Represents mandatory supplementation data only.

[5] Represents June 1985 recipient data for Oregon and August 1985 data for Missouri and Wyoming; data not available for September 1985.

Source: Office of Supplemental Security Income, Social Security Administration.

BEST COPY AVAILABLE

TABLE 19.—STATE SSI SUPPLEMENTS FOR AGED INDIVIDUALS WITHOUT COUNTABLE INCOME LIVING INDEPENDENTLY [1]

State	July 1975	July 1980	Jan. 1984	Jan. 1985	Jan. 1986	Percent increase (constant dollars) 1975–86 [1]
Alaska [2]	142	235	252	261	269	−6
California	101	164	163	179	197	−3
Colorado	27	55	58	58	58	6
Connecticut [3]	NA	NA	NA	NA	NA	
District of Columbia	0	15	15	15	15	
Hawaii	17	15	5	5	5	−85
Idaho	63	74	88	78	52	−59
Illinois [3]	NA	NA	NA	NA	NA	
Maine	10	10	10	10	10	−50
Massachusetts	111	137	128	129	129	−42
Michigan	12	24	24	27	28	16
Minnesota [4]	31	34	35	35	35	−44
Nebraska	67	75	74	61	55	−59
Nevada	55	47	36	36	36	−68
New Hampshire	12	46	27	27	27	12
New Jersey	24	23	29	31	31	−36
New York	61	63	61	61	72	−41
Oklahoma	27	79	69	60	60	10
Oregon	17	12	2	2	2	−94
Pennsylvania	20	32	32	32	32	−21
Rhode Island	31	42	52	54	56	−10
South Dakota	0	15	15	15	15	
Utah	0	10	10	10	10	
Vermont [5]	29	41	50	53	56	−4
Washington [6]	36	43	38	38	28	−61
Wisconsin	70	100	100	100	102	−28
Wyoming	0	20	20	20	20	
Median [7]	29	43	38	36	36	-56
Median [8]	31	43	38	36	36	−59

---

[1] The percentage decrease in constant dollars were computed by inflating July, 1975 to January, 1986 by the CPI–U price index. The December 1985 figure of 327.4 was used.

[2] 1975 and 1980—less if shelter costs less than $35 monthly.

[3] State decides benefit on a case-by-case basis. It is impossible to come up with a valid average of the supplements paid by the State.

[4] Payment level for Hennepin County. State has 10 geographic payments levels.

[5] State has two geographic payment levels—highest levels are shown in table. Sum paid only in Chittenden County.

[6] State has two geographic payment levels—highest levels are shown in table. Sum paid in King, Pierce, Kitsap, Snohomish, and Thurston Counties.

[7] Among the States in the table. Connecticut and Illinois are classified as having a payment above the median.

[8] Among the States with a payment, Connecticut and Illinois are classified as having a payment above the median.

TABLE 20.—STATE SSI SUPPLEMENTS FOR AGED COUPLES WITHOUT COUNTABLE INCOME LIVING INDEPENDENTLY

State	July 1975	July 1980	Jan. 1984	Jan. 1985	Jan. 1986	Percent increase (constant dollars) 1975–86 [1]
Alabama	9	0	0	0	0	−100
Alaska [2]	183	338	358	371	383	4
California	251	389	414	448	485	−4
Colorado	133	229	272	278	284	6
Connecticut [3]	NA	NA	NA	NA	NA	
District of Columbia	0	30	30	30	30	
Hawaii	28	24	9	9	9	−84
Idaho	49	80	58	46	20	−80
Illinois [3]	NA	NA	NA	NA	NA	
Maine	15	15	15	15	15	−50
Massachusetts	173	214	202	202	202	−42
Michigan	18	36	36	40	42	16
Minnesota [4]	38	44	66	66	66	−14
Nebraska	67	114	108	89	84	−38
Nevada	106	90	74	74	74	−65
New Hampshire	0	42	21	21	21	
New Jersey	13	12	23	25	25	−5
New York	76	79	76	76	93	−39
Oklahoma	54	158	144	120	120	10
Oregon	17	10	0	0	0	−100
Pennsylvania	30	49	49	49	49	−19
Rhode Island	59	79	98	102	105	−12
South Dakota	0	15	15	15	15	
Utah	0	20	20	20	20	
Vermont [5]	61	76	91	96	101	−18
Washington [6]	40	44	36	37	22	−73
Wisconsin	105	161	161	161	164	−23
Wyoming	0	40	40	40	40	
Median [7]	40	49	58	49	49	−56
Median [8]	57	63	66	66	66	−59

---

[1] The percentage decrease in constant dollars were computed by inflating July 1975 to January 1986 by the CPI–U price index. The December figure of 327.4 was used.

[2] 1975 and 1980—less if shelter costs less than $35 monthly.

[3] State decides benefit on a case-by-case basis. It is impossible to come up with a valid average of the supplements paid by the State.

[4] Payment level for Hennepin County. State has 10 geographic payment levels.

[5] State has two geographic payments levels—highest levels are shown in table. Sum paid only in Chittenden County.

[6] State has two geographic payment levels—highest levels are shown in table. Sum paid in King, Pierce, Kitsay, Snohomish, and Thurston Counties.

[7] Among the States in the table except Illinois is excluded. Connecticut is classified as having a payment above the median.

[8] Among the States with a payment. Illinois is not classified. Connecticut is classified as having a payment above the median.

LEGISLATIVE ACTION DURING 1984 AND PRIOR YEARS

The Deficit Reduction Act of 1984 contained seven provisions which affect the SSI program which are explained below. There were also several provisions which affect the SSI program in the Social Security Disability Benefits Reform Act of 1984. See section 3 for a more complete description. The impact upon SSI costs are shown in table 21. Also shown in table 21 are the budgetary impact of changes made to the SSI program during 1981 to 1983. On the basis of CBO's latest (January 1985) estimates, SSI benefits are 8 to 9 percent larger as a result of legislative changes made during the last 5 years.

1. Increase in dollar limitations under SSI assets test

The act increases the countable assets limit under the SSI program by $100 a year for an individual and $150 a year for a couple, beginning in calendar year 1985, and each year through calendar year 1989. The current assets limit is $1,700 for an individual and $2,550 for a couple. The limit will be $2,000 for an individual and $3,000 for a couple in 1989 and thereafter.

2. Limit recoupment rate in case of overpayments

The Secretary is authorized to recover SSI overpayments by adjusting future payments or by direct recovery from the individual. Overpayments may be waived under conditions specified in law and regulations. When an overpayment is detected, SSA sends a notice to the recipient. The notice contains information regarding relief from recovery and rights of appeal.

The act establishes a limit on the rate of recovery from SSI recipients who have been overpaid. In the case of overpayments, the act limits the amount of adjustment or recovery in any month to the lesser of: (1) the amount of the benefit for that month; or (2) an amount equal to 10 percent of the countable income (including the SSI payment) of the individual (or couple) for that month. This limitation would not apply if there is fraud in connection with the overpayment. The recipient may request a different rate at which benefits or income may be withheld or recovered.

3. Limit on recovery of overpayments when recipient has excess assets.

Under prior law, if in any month, a recipient's assets exceed the asset limit (currently $1,700 for an individual and $2,550 for a couple) the individual is ineligible for benefits in that month and the entire amount of the benefit paid for that month is considered an overpayment subject to recovery. The act provides that in cases where there is an overpayment based on an excess of assets of $50 or less, the recipient would be deemed to be without fault for purposes of waiving the overpayment and the overpayment would not be recovered unless the Secretary finds that the failure to report the excess was knowing and willful on the part of the recipient.

4. Exclusion of retroactive payments from resources

Under prior law, for purposes of determining SSI eligibility and benefit amounts, a retroactive SSI check is not counted as income to the recipient. By regulation, the Social Security Administration had provided that a retroactive SSI check was not counted as a resource for 3 months beyond the month in which it is received. A retroctive Social Security (title II) check is considered to be unearned income in determining the applicable monthly benefit amount, and is considered a resource if it is retained in months thereafter. The act provides that SSI and title II retroactive benefit payments may not be considered as a resource for a period of 6 months after the month in which the retroactive benefit is received.

5. *Adjustments in SSI and OASDI benefits on account of retroactive payments*

Under prior law, OASDI benefits that are paid retroactively following the initial determination of eligibility are reduced by the amount of any excess SSI benefits that have been paid because the OASDI benefits have been received in a lump sum rather than in the months when regularly payable. The act would expand this provision to also provide for reducing the retroactive SSI payment in cases where retroactive OASDI benefits are paid before the SSI benefits and to make other technical changes.

6. *Exclusion from income of Alaska bonus payment*

An amendment to the SSI statute in 1975 provided for the exclusion from countable income of the Alaska "longevity bonus," i.e., payments to certain individuals who have lived in the State at least 25 years. As the result of an Alaska State Supreme Court decision, Alaska enacted a revision that reduces the residency requirement from 25 years to 1 year. The act provides for the continued disregard of the Alaska bonus but it would apply only to those individuals who, prior to October 1, 1985, met the 25-year residency requirement of eligibility for the Alaska bonus as it was in effect prior to the recent amendments mandated by the courts.

7. *Income and eligibility verification procedures*

Under prior law, IRS wage information furnished by employers to IRS is available to the Social Security Administration for administering the SSI program. However, IRS unearned income information (filed by a financial institution or corporation with respect to payments to individuals in the form of interest, dividends, etc.) was not available to Federal and State agencies for use in the administration of the SSI program.

The act provides for the IRS to disclose return information with respect to unearned income to Federal and State SSI and other programs.

Disclosure can only be made to agencies that meet the requirements to safeguard this confidential information against disclosure, and verification of the unearned income information is required prior to taking action to reduce or terminate benefits.

TABLE 21.—MAJOR LEGISLATIVE CHANGES IN THE SSI PROGRAM FROM 1981 TO 1984

[Minus (−) means decrease in outlays; in millions of dollars]

	Fiscal year—					
	1982	1983	1984	1985	1986	1987
	January 1984 Estimates					
1981:						
Retrospective accounting and monthly reporting	37	20	21	17	14	NA
Limit reimbursements for vocational rehabilitation services	−20	−18	−15	−11	−6	NA
Eliminate OASDI minimum benefit for future beneficiaries	15	33	48	56	59	NA
Total—SSI	32	35	54	62	67	NA
1982:						
Prorate benefits to application date		−30	−25	−30	−30	−30
Round benefits down		0	−15	−20	−20	−20
Coordinate with OASDI COLA		−30	−32	−30	−30	−26
Phase out hold harmless		−30	−37	−45	−45	−45
Exclude burial plots and contracts		5	5	5	5	5
Modify mandatory pass through		0	0	0	0	0
Credit States for unnegotiated checks		0	0	1	1	1
Exclude home energy assistance from countable income		1	2	2	0	0
Total—SSI		−84	−102	−117	−119	−115
Food stamp impact of SSI provision		10	13	15	15	15
1983:						
SSI notification		0	65	95	90	90
Net impact of OASDI COLA delay and SSI benefit increases		170	635	715	720	755
SSI eligibility for temporary residents of emergency shelters		1	3	3	3	3
Disregard in-kind assistance provided by nonprofit organizations		1	2	0	0	0
Total—SSI		172	705	813	813	845
Food stamp impact of SSI provisions		−40	−170	−190	−195	−205
Medicaid impact of SSI provisions		0	40	70	75	75

TABLE 21.—MAJOR LEGISLATIVE CHANGES IN THE SSI PROGRAM FROM 1981 TO 1984—Continued

[Minus (−) means decrease in outlays; in millions of dollars]

	Fiscal year—					
	1982	1983	1984	1985	1986	1987
	January 1985 Estimates					
1984:						
Increase asset limits				3	15	30
Limit recoupment rate in case of overpayments				22	2	2
Limit on recovery of overpayments when recipient has excess resources				2	2	2
Exclusion of retroactive payments from resources				Neg.	Neg.	Neg.
Adjustments in SSI and OASDI benefits on account of retroactive payments				−5	−5	−5
Exclusion from income of Alaska bonus payment				1	1	1
Income and eligibility verification procedures				5	−75	−85
Disability Amendments (Public Law 98-460)				5	8	10
Total—SSI				33	−52	−45
Food stamp impact of SSI provisions				1	−4	−4
Medicaid impact of SSI provisions				2	10	15

NA = Not available.
Neg. = Negligible.

APPENDIX H. LOW-INCOME HOME ENERGY ASSISTANCE PROGRAM (LIHEAP)

The Low-Income Home Energy Assistance Program (LIHEAP) was created by Title III of the Crude Oil Windfall Profit Tax Act of 1980 (P.L. 96-223). The purpose of LIHEAP is to help low-income households meet their energy-related expenses. In fiscal year 1981, $1.85 billion was appropriated for the program.

As part of the Omnibus Budget Reconciliation Act (OBRA) of 1981 (Public Law 97-35) the Low-Income Home Energy Assistance Act of 1981 authorized the Secretary of Health and Human Services to make LIHEAP allotments to States for fiscal years 1982-1984. The Act permits States to provide three types of energy assistance. States can: (1) help eligible households pay their home heating or cooling bills, (2) use up to 15 percent of their LIHEAP allotment for low-cost weatherization, and (3) provide assistance to households during energy-related emergencies.

The Human Services Reauthorization Act of 1984 (Public Law 98-558) amended the Low-Income Home Energy Assistance Act of 1981 and authorized appropriations for fiscal years 1985 and 1986. Appropriations for fiscal years 1982 through 1984 were $1.875, $1.975, and $2.075 billion, respectively. Public Law 98-619 appropriated $2.1 billion for fiscal year 1985. Public Law 99-178 appropriated $2.1 billion for fiscal year 1986.[1]

ALLOTMENTS TO STATES AND TERRITORIES

The Human Services Reauthorization Act of 1984 (Public Law 98-558) changed the method used to allocate LIHEAP funds among the States. States receive a percentage of LIHEAP funds based on the home energy expenditures of low-income households in each State relative to such expenditures in all States. "Home energy" is defined as heating or cooling in a residential dwelling. Section 604(a) of the Act stipulates the two conditions under which States may receive an allotment that is greater than indicated by the allocation method.

(1) Beginning with fiscal year 1986, no State is to receive an allotment that is less than the State would have received in 1984 if the LIHEAP appropriation had been $1.975 billion.

(2) If any State's LIHEAP allotment is less than 1 percent of a total appropriation of $2.250 billion, that State is not to receive an allotment that is smaller than it would be if the total appropriation were $2.140 billion.

The law also provides discretion to the Secretary of Health and Human Services to apportion between one-tenth and one-half of 1 percent of the funds available in the fiscal year to the territories. Indian tribes can receive direct funding under a State's allocation if the Secretary of Health and Human Services determines that the tribe would be better served. A total of 117 Indian Tribes and Tribal Organizations in 25 States received direct grants for fiscal year 1985. Table 1 shows State allotments for fiscal years 1981 through 1986.

---

[1] The Balanced and Emergency Deficit Control Act of 1985 requires the cancellation of $90.3 million of fiscal year 1986 budget authority.

States may transfer up to 10 percent of their LIHEAP allotment to one or any combination of the block grants for community services, title XX social services, preventive health and health services, primary health care, and maternal and child health services. A State's decision to transfer part of its allotment to a block grant does not affect its subsequent fiscal year allotment. In fiscal year 1985, 29 States reported that they planned to transfer part of their LIHEAP allotment to other block grants (see Table 2).

Effective in fiscal year 1985, the maximum amount of LIHEAP funds that a State can carry over to the next fiscal year was reduced from 25 percent to 15 percent. This provision applies to a State's allotment after adjustments have been made for tribal set asides and transfers to block grants. States must explain why funds are held over until the next fiscal year and what types of assistance the funds will provide. The amount carried over does not affect the State's subsequent fiscal year allocation. Amounts above 15 percent that are not spent by the State must be reallocated by the Secretary of Health and Human Services. In fiscal year 1985, it was estimated that all but 11 States would carry over some of their LIHEAP allotment to fiscal year 1986 (see Table 2).

ELIGIBILITY AND TYPES OF ASSISTANCE

States have considerable discretion to determine eligibility criteria for LIHEAP and the types of energy assistance to be provided. At State option, LIHEAP payments can be made to households based on categorical eligibility where one or more persons are receiving: Supplemental Security Income, Aid to Families with Dependent Children, Veterans' Pensions, or Dependency and Indemnity Compensation. States can also elect to make payments to households with incomes that are less than 150 percent of the Federal poverty income guidelines or 60 percent of the State's median income, whichever is greater. Individuals who are denied benefits are entitled to a fair administrative hearing, except with regard to weatherization programs. The term "household" is defined as any individual or group of individuals who are living together as one economic unit and for whom residential energy is customarily purchased in common, or who make undesignated payments for energy in the form of rent.

Effective on October 1, 1985, under Title VI of the Human Services Reauthorization Act of 1984, States cannot establish an eligibility ceiling that is below 110 percent of the poverty level. States also are prohibited from treating categorically eligible and income eligible households differently with respect to LIHEAP. Further, LIHEAP benefits cannot be used to calculate income or resources for any purpose under Federal or State law, including public assistance programs, unless legislation is enacted specifically with regard to this provision.

Table 3 shows the number of households assisted by LIHEAP in each State for fiscal year 1985. Households may be counted more than once if they received more than one type of assistance. The Heating Assistance Program aided the largest number of households, more than 6 million.

States are required to give assurances that the largest benefits go to those households that have the lowest income and highest energy costs relative to their income. In addition, States are to conduct outreach activities aimed at making households with elderly or handicapped individuals aware that energy assistance is available. These outreach services include: toll-free information hotlines, special application periods, transportation to LIHEAP application offices, and home visits. Section 607(a) of Public Law 98-558 directs the Department of Health and Human Services to collect annual data, including information on the number of LIHEAP households in which at least one household member is 60 years or old or handicapped.

States have considerable discretion in the methods they have available to provide assistance to eligible households. Methods that are used, vary by State and program. A list of methods that are used includes cash payments, vendor payments, two-party checks, vouchers/coupons, and payments directly to landlords. When paying home energy suppliers directly, States are required to give assurances that suppliers will charge the eligible households the difference between the amount of the assistance and the actual cost of home energy. Also, States may use Federal funds to provide tax credits to energy suppliers who supply home energy to low-income households at reduced rates.

Table 4 shows the average program benefits received by eligible households in each State for fiscal year 1985. The average benefit for heating assistance ranged from $625 in North Dakota to $58 in Hawaii. The maximum benefit for weatherization assistance ranged from $3,500 in the District of Columbia to $560 in Ohio and Rhode Island.

PLANNING AND ADMINISTRATION

States are required to submit an application for funds to the Secretary of Health and Human Services. As part of the annual application, the chief executive officer of the State is required to make several assurances related to eligibility requirements, anticipated use of funds, as well as to satisfy planning and administrative requirements. States are prohibited from using more than 10 percent of their total LIHEAP allotment for planning and administrative costs.

States must provide for public participation and public hearings in the development of the State plan, including making it available for public inspection and allowing public comment on the plan. In addition, beginning in fiscal year 1986, each major revision to the plan must be made available to the public. Public Law 98-558 requires States to engage an independent person or organization to prepare an audit at least once every two years. The law also contains two other related provisions that are effective in fiscal year 1986. First, the Comptroller General is directed to evaluate, at least once every three years, if a State's LIHEAP expenditures are consistent with law. Second, the Department of Health and Human Services is to develop regulations to prevent waste, fraud, and abuse in LIHEAP.

TABLE 1.—LOW-INCOME HOME ENERGY ASSISTANCE PROGRAM STATE ALLOTMENTS

[In thousands of dollars]

States	Fiscal year—					
	1981 [1]	1984 [2]	1985 [2]	1986 [3]	1986 [4]	Percent reduction [5]
Alabama	$15,674	$17,725	$18,234	$20,057	17,718	−11.69
Alaska	7,505	7,034	7,247	10,815	10,815	0.00
Arizona	6,426	7,802	8,150	9,700	8,569	−11.69
Arkansas	11,960	13,584	13,973	15,305	13,520	−11.69
California	84,088	95,204	97,894	107,602	95,051	−11.69
Colorado	29,319	33,299	33,299	31,692	31,692	0.00
Connecticut	38,247	43,440	43,440	41,344	41,344	0.00
Delaware	5,077	5,766	5,931	5,989	5,732	−4.30
District of Columbia	5,940	6,746	6,940	6,726	6,437	−4.30
Florida	25,921	28,163	28,970	31,737	28,035	−11.69
Georgia	19,609	22,271	22,910	25,093	22,166	−11.69
Hawaii	1,975	2,243	2,243	2,135	2,135	0.00
Idaho	11,181	12,877	12,877	12,362	12,362	0.00
Illinois	105,862	120,233	123,679	121,425	116,214	−4.30
Indiana	47,431	54,438	55,371	54,548	52,207	−4.30
Iowa	29,470	38,581	38,581	36,720	36,720	0.00
Kansas	15,515	17,704	18,211	18,061	17,286	−4.30
Kentucky	24,943	28,329	29,141	30,887	28,187	−8.75
Louisiana	16,024	18,166	18,687	20,506		
Maine	27,513	27,905	27,914	26,784	26,784	0.00
Maryland	29,285	33,261	34,214	37,475	33,104	−11.69
Massachusetts	82,707	86,877	86,878	82,701	82,701	0.00
Michigan	111,598	114,081	113,951	115,002	110,067	−4.30
Minnesota	72,409	82,239	82,239	78,271	78,271	0.00
Mississippi	13,930	15,246	15,683	17,196	15,190	−11.69
Missouri	37,885	48,026	48,026	50,089	47,784	−4.61
Montana	11,350	12,298	12,298	14,500	14,500	0.00
Nebraska	13,799	19,071	19,032	18,159	18,159	0.00
Nevada	3,560	4,036	4,151	4,556	4,024	−11.69
New Hampshire	14,481	16,447	16,447	15,654	15,654	0.00

TABLE 1.—LOW-INCOME HOME ENERGY ASSISTANCE PROGRAM STATE ALLOTMENTS—Continued

[In thousands of dollars]

States	Fiscal year—					
	1981 [1]	1984 [2]	1985 [2]	1986 [3]	1986 [4]	Percent reduction [5]
New Jersey	71,025	80,563	82,849	86,629	80,261	−7.36
New Mexico	8,867	9,882	9,973	11,921	10,724	−10.05
New York	231,907	263,291	263,291	250,683	250,683	0.00
North Carolina	34,561	39,253	40,378	44,226	39,067	−11.69
North Dakota	7,995	14,530	14,612	15,751	15,751	0.00
Ohio	93,651	106,364	109,413	113,929	105,829	−7.12
Oklahoma	15,998	15,558	16,004	18,437	16,286	−11.69
Oregon	22,723	25,808	25,808	24,563	24,563	0.00
Pennsylvania	124,568	141,479	141,479	134,653	134,653	0.00
Rhode Island	12,594	14,220	14,220	13,613	13,613	0.00
South Carolina	13,822	14,138	14,544	15,930	14,072	−1169
South Dakota	10,241	11,168	11,434	12,793	12,793	0.00
Tennessee	25,267	28,697	29,520	32,333	28,561	−11.69
Texas	41,261	46,862	48,206	52,799	46,641	−11.69
Utah	13,289	14,827	14,827	14,727	14,727	0.00
Vermont	10.854	12,328	12,328	11,733	11,733	0.00
Virginia	39,019	40,516	41,677	41,696	39,907	−4.30
Washington	33,104	40,847	40,896	40,403	40,403	0.00
West Virginia	16,507	18,748	19,285	18,738	17,934	−4.30
Wisconsin	61,679	74,027	74,027	70,456	70,456	0.00
Wyoming	3,561	6,195	6,195	5,897	5,897	0.00
U.S. total	1,813,177	2,052,395	2,077,577	2,094,999	2,005,093	−4.3

---

[1] Includes reallocation of funds and crisis intervention funds but excludes payments to Indian tribal organizations. Source: Low Income Energy Assistance Program; Report to Congress for Fiscal Year 1981; Department of Health and Human Services.

[2] Excludes payments to Indian tribal organizations. Column does not add to total due to rounding Source: Department of Health and Human Services, January 1985.

[3] Excludes payments to Indian tribal organizations. Column does not add due to rounding. Does not include reductions in grants due to the sequestration of funds under the Balanced Budget and Emergency Deficit Reduction Act of 1985. Source: Department of Health and Human Services, September 20, 1985.

[4] State's final FY 1986 allotments. These are gross State allotments which may be reduced based on direct grants to Indian tribes within the State. In general, Tribal grants will decrease by the same percentage as the allotment for the State in which the Tribe is located.

[5] Percentage decrease in States' allotments from the amount allotted before Public Law 99-177 (including reallotment) to the amount allotted after Public Law 99-177.

TABLE 2.—USES OF FUNDS, BY STATE, IN DOLLARS, FISCAL YEAR 1985

State	Heating assistance benefits	Crisis assistance benefits	Cooling assistance benefits	Weatherization assistance benefits	Administrative costs	Block grant transfers	Carryover to fiscal year 1986 [1]	Total
Total	1,487,149,044	[2] 195,163,887	28,336,275	214,243,435	163,319,581	97,998,323	[3] 70,571,314	2,256,781,859
Alabama	11,263,485	1,500,000	0	2,735,032	1,823,354	911,677	1,041,000	19,274,548
Alaska	6,300,000	95,000	0	1,125,000	590,000	0	1,200,000	9,310,000
Arizona	[4] 4,612,696	2,400,000	0	1,200,000	815,025	0	1,222,538	10,250,259
Arkansas	8,586,253	164,279	1,344,000	2,109,451	1,495,626	1,397,315	[5] 171,948	15,268,872
California	60,576,200	16,422,000	0	8,130,073	5,782,800	9,792,326	6,406,355	107,109,754
Colorado	19,639,485	3,980,500	0	5,106,827	3,247,885	3,329,685	4,495,344	39,799,926
Connecticut	39,570,568	855,000	0	774,000	4,113,952	0	0	45,313,520
Delaware	4,351,532	468,443	0	602,353	617,326	0	705,200	6,744,854
District of Columbia	4,792,573	385 798	745,595	418,588	801,595	0	871,805	8,015,954
Florida	[4] 21,843,196	297,000	0	3,910,955	2,897,004	2,897,004	1,166,669	33,011,828
Georgia	15,625,000	1,481,151	0	2,537,059	2,097,412	1,980,234	358,181	24,079,037
Hawaii	[6] 1,581,342	500,000	0	0	161,494	0	0	2,242,836
Idaho	11,343,403	165,000	0	1,931,620	1,287,747	1,225,624	747,000	16,700,394
Illinois	96,375,623	5,433,000	0	17,500,000	3,000,000	0	4,000,000	126,308,623
Indiana	42,775,850	4,369,538	0	5,000,000	4,832,793	0	0	56,978,181
Iowa	29,715,885	40,759	0	5,787,159	2,892,000	0	1,896,285	40,332,088
Kansas	10,000,000	500,000	2,895,916	2,458,483	1,638,988	1,821,098	2,020,609	21,335,094
Kentucky	15,320,782	4,600,000	0	3,992,379	2,914,145	2,914,145	640,088	30,381,539
Louisiana	8,001,915	0	5,000,000	2,800,000	1,400,000	1,800,000	439,414	19,441,329
Maine	21,003,716	547,234	0	4,195,278	2,549,904	0	457,155	28,753,287

TABLE 2.—USES OF FUNDS, BY STATE, IN DOLLARS, FISCAL YEAR 1985—Continued

State	Heating assistance benefits	Crisis assistance benefits	Cooling assistance benefits	Weatherization assistance benefits	Administrative costs	Block grant transfers	Carryover to fiscal year 1986 [1]	Total
Maryland	24,561,003	366,765	0	4,913,003	3,662,132	0	1,237,341	34,740,244
Massachussetts	87,736,734	0	0	8,604,543	8,802,823	0	0	105,144,100
Michigan	40,400,000	[7] 48,400,000	0	4,700,000	10,200,000	11,300,000	5,000,000	120,000,000
Minnesota	64,865,000	5,650,000	0	[8] 4,500,000	8,223,918	0	[8] 3,000,000	86,238,918
Mississippi	11,827,426	612,988	0	2,554,029	1,532,417	0	445,753	16,972,613
Missouri	35,600,000	2,700,000	641,000	2,790,000	4,802,579	4,802,579	2,666,432	54,002,590
Montana	9,900,000	0	0	500,000	1,000,000	1,229,769	1,660,188	1,4,289,957
Nebraska	15,189,652	[7] 448,635	0	932,618	400,000	1,903,228	0	18,874,133
Nevada	2,323,097	503,933	250,379	600,000	389,621	253,500	0	4,320,530
New Hampshire	12,201,963	977,768	0	1,583,064	1,544,715	0	100,000	16,507,510
New Jersey	60,092,954	2,500,000	1,000,000	4,900,000	6,400,000	8,204,000	10,000,000	93,096,954
New Mexico	9,347,766	400,000	0	250,000	725,000	0	30,000	10,752,766
New York	194,750,000	20,000,000	0	31,950,000	21,500,000	16,500,000	0	284,700,000
North Carolina	28,250,000	6,200,000	0	3,000,000	3,000,000	3,010,856	[9] 2,000,000	45,460,856
North Dakota	12,503,565	399,600	0	1,500,000	1,207,749	1,461,184	1,809,305	18,881,403
Ohio	75,000,000	17,202,014	0	16,411,931	8,169,155	0	[10] 1,132,725	117,915,825
Oklahoma	11,311,018	1,226,876	0	1,872,477	1,600,407	0	0	16,010,778
Oregon	17,153,150	580,201	0	3,518,990	1,884,250	2,580,801	613,207	26,330,599
Pennsylvania	111,589,743	15,513,500	0	9,186,109	10,196,916	0	0	146,486,268
Rhode Island	7,594,344	4,697,852	0	711,000	1,400,000	0	250,000	14,653,196
South Carolina	10,582,118	1,308,933	0	2,181,556	1,544,014	0	872,334	16,488,955
South Dakota	8,298,074	348,204	0	1,510,781	600,000	1,143,422	710,543	12,611,024
Tennessee	20,427,910	2,973,809	1,359,385	1,986,350	1,084,934	2,592,806	4,039,029	34,464,223
Texas	19,968,228	4,000,000	[11] 15,100,000	5,300,000	2,000,000	4,820,563	0	51,188,791
Utah	11,355,000	27,290	0	1,500,000	1,100,000	1,482,676	[11] 1,264,866	16,729,832

BLANK PAGE

BLANK PAGE

BLANK PAGE

Vermont	8,826,093	400,623	0	1,849,159	1,202,872	49,000	0	12,327,727
Virginia	36,992,813	0	0	4,500,000	3,800,000	0	3,800,000	49,092,813
Washington	22,136,978	6,000,000	0	4,749,355	4,087,524	4,087,524	1,500,000	42,561,381
West Virginia	11,734,577	3,900,214	0	2,314,213	1,349,958	1,157,107	0	20,456,069
Wisconsin	66,597,070	3,600,000	0	10,860,000	4,230,000	3,000,000	0	88,267,070
Wyoming	4,753,264	20,000	0	200,000	619,547	350,000	600,000	6,542,811

---

[1] Where available, figures were taken from the carryover and reallotment report due August 1, 1985 required by regulation at 45 CFR 96.81. For most states, the carryover is an estimate. Some states requested to reserve up to the amount in this column for use in FY 1986 LIHEAP.

[2] Figure does not include funds spent for crisis assistance in Massachusetts and Montana.

[3] Figure does not include carryover for New York and Texas.

[4] Benefits for heating assistance and cooling assistance combined. State does not administer separate cooling assistance program.

[5] State requested to carry over up to $2,080,733. Figure presented here in an estimate of actual carryover amount.

[6] Benefits for home energy assistance, without differentiation for heating or cooling assistance.

[7] State provides crisis assistance as part of the regular heating assistance program.

[8] State requested to carry over between $2 million and $7 million, and estimated the figure at $3 million. The states legislature has mandated all carryover funds to be used for weatherization assistance.

[9] State estimated carryover will be $13 million. These funds are represented in the benefits and administrative costs figures presented in the table for the state. Those figures will be reduced by the amount of carryover.

[10] State reported that the figure could increase by $2-$3 million.

[11] State did not include nearly $3 million in the uses figures. Some of those funds will be used for cooling assistance, depending on need, and the remainder will be carried over for use in FY 1986 LIHEAP.

Source: U.S. Department of Health and Human Services, "Low-Income Home Energy Assistance Information Memorandum," Transmittal No. SSA-IM-85-24, Washington, D.C., August 27, 1985.

TABLE 3.—NUMBER OF HOUSEHOLDS ASSISTED BY LIHEAP PROGRAM FOR FISCAL YEAR 1985

State	Heating assistance	Weatherization assistance	Cooling assistance	Crisis assistance [5]	
				Summer	Winter
Alabama	86,000	2,461		10,000	
Alaska	12,500	500			350
Arizona	[1] 40,000	1,370			12,000
Arkansas	71,000	1,108	26,880		4,000
California	473,000	14,842			109,600
Colorado	55,000	12,000			1,500
Connecticut	[2] 75,851	3,105			[6] 4,270
Delaware	13,236	683			3,991
District of Columbia	14,381	2,874	9,334	75	1,734
Florida	[1] 157,710	3,802			4,669
Georgia	110,000	2,800			12,000
Hawaii	[3] 27,147				2,943
Idaho	42,281	2,193			1,200
Illinois	450,000	9,783			15,000
Indiana	159,286	4,500			18,476
Iowa	106,522	6,000			395
Kansas	46,511	2,654	20,894	1,000	
Kentucky	114,000	2,300			17,600
Louisiana	124,589	1,575	125,000		
Maine	60,000	1,750			[7] 3,435
Maryland	89,833	10,168			3,667
Massachusetts	149,400	18,100			
Michigan	300,000	2,800			110,000
Minnesota	134,000	1,250			16,000
Mississippi	63,505	2,554	2,656	149	2,274
Missouri	147,224	3,000	([4])		15,000
Montana	23,000	1,200			4,000
Nebraska	37,000	1,272			2,639
Nevada	11,339	600	2,500		11,339
New Hampshire	26,508	1,171			6,753
New Jersey	190,000	3,000	7,500		17,000
New Mexico	61,028				5,171
New York	1,033,000	43,560			80,000
North Carolina	160,000	2,622		1,500	47,328
North Dakota	20,166	520			1,399
Ohio	450,000	8,900			110,000
Oklahoma	83,621	2,340		9,800	
Oregon	84,066	3,652			3,933
Pennsylvania	356,472	10,000			96,200
Rhode Island	29,643	500			17,600
South Carolina	86,281	1,496		1,197	18,937
South Dakota	23,068	900			1,894
Tennessee	110,000	2,645	7,500		13,900
Texas	300,000	4,000	305,000		24,258
Utah	46,000	2,300			[8] 200
Vermont	20,038	1,300			2,252

TABLE 3.—NUMBER OF HOUSEHOLDS ASSISTED BY LIHEAP PROGRAM FOR FISCAL YEAR 1985—Continued

State	Heating assistance	Weatherization assistance	Cooling assistance	Crisis assistance [5]	
				Summer	Winter
Virginia	113,553	3,214			
Washington	75,000	3,022			41,264
West Virginia	76,500	1,491			14,950
Wisconsin	214,000	6,000			14,000
Wyoming	12,151	(4)			100
Total	6,766,288	219,877	507,264	23,721	[9] 895,221

[1] Includes households receiving combined heating and cooling assistance benefits.

[2] Does not include 4,311 households assisted by State funds.

[3] Households received home energy assistance without differentiation for heating or cooling assistance.

[4] Data unavailable at time of survey.

[5] In addition to the States listed in this table, several other states indicated they provided a crisis assistance program through the summer months even through they had no separate summer crisis assistance component. The States are: Alaska, Arizona, California, Georgia, Idaho, Illinois, Maine, Michigan, Missouri, New York, North Dakota, Texas, Utah, Washington, West Virginia, Wisconsin, and Wyoming. The households assisted by these programs are included in the winter crisis assistance data.

[6] Does not include 276 households assisted by State funds.

[7] Figure represents number of households assisted as of March 31, 1985.

[8] Households were provided emergency repair or furnace repair.

[9] Excludes 30,000 households Massachusetts assisted in the expedited payment portion of their regular heating assistance program.

Source: Data compiled from telephone interviews with State offices in July 1985 by the Department of Health and Human Services. Telephone survey information is provisional and subject to change. U.S. Department of Health and Human Services, "Low-Income Home Energy Assistance Information Memorandum, Transmittal No. SSA-IM-85-24, Washington, D.C., August 27, 1985.

TABLE 4.—AVERAGE HOUSEHOLD LIHEAP BENEFITS BY STATE AND PROGRAM FOR FISCAL YEAR 1985[1]

State	Heating assistance	Weatherization assistance [3] (maximum benefit)	Cooling assistance [6]	Crisis Assistance	
				Summer	Winter
Alabama	$112	$1,000		$112	
Alaska	485	1,800			$300
Arizona	125	1,200			125
Arkansas	114	1,600	$50		127
California	129	1,000			150
Colorado	347	1,500			(4)
Connecticut	588	2,455			200
Delaware	330	1,500			99
District of Columbia	334	3,500	96	150	200

TABLE 4.—AVERAGE HOUSEHOLD LIHEAP BENEFITS BY STATE AND PROGRAM FOR FISCAL YEAR 1985[1]—Continued

State	Heating assistance	Weatherization assistance [3] (maximum benefit)	Cooling assistance [6]	Crisis Assistance	
				Summer	Winter
Florida	139	1,600			(4)
Georgia	150	1,000			150
Hawaii	58				151
Idaho	228	1,600			100
Illinois	226	1,600			290
Indiana	272	1,600			189
Iowa	279	2,000			103
Kansas	214	1,000	135	125	
Kentucky	130	1,500			260
Louisiana	64	1,600	43		
Maine	340	1,600			117
Maryland	253	1,000			100
Massachusetts	561	2,000			
Michigan	135	2,000			
Minnesota	482	(4)			440
Mississippi	160	1,000	184	188	160
Missouri	241	1,600	(4)		180
Montana	462	1,600			
Nebraska	409	1,600			265
Nevada	239	2,000	100		44
New Hampshire	454	3,000			139
New Jersey	306	1,200	125		145
New Mexico	194				70
New York	215	1,600			299
North Carolina	175	1,000		131	(4)
North Dakota	625	1,500			187
Ohio	180	[5] 560			155
Oklahoma	135	1,600		125	
Oregon	204	1,600			147
Pennsylvania	317	1,000			177
Rhode Island	256	560			263
South Carolina	[2] 123	1,600			97
South Dakota	339	1,600		130	136
Tennessee	189	1,000	100		193
Texas	66	1,600	51		155
Utah	268	1,600			64
Vermont	440	1,600			178
Virgina	326	1,400			

BEST COPY AVAILABLE

TABLE 4.—AVERAGE HOUSEHOLD LIHEAP BENEFITS BY STATE AND PROGRAM FOR FISCAL YEAR 1985[1]—Continued

State	Heating assistance	Weatherization assistance [5] (maximum benefit)	Cooling assistance [6]	Crisis Assistance	
				Summer	Winter
Washington	180	2,300			180
West Virginia	162	1,600			216
Wisconsin	309	1,600			180
Wyoming	391	1,000			188

---

[1] Figures are estimates provided by States and are not necessarily the result obtained by dividing total program benefits by number of households.

[2] Includes payments made to subsidized housing tenants.

[3] Data for average benefit by State are not available.

[4] Data unavailable at time of survey.

[5] This maximum dollar amount is for materials only. It does not include labor costs for which there is no maximum.

[6] In addition to the States listed in the table, Arizona and Florida provide combined heating and cooling assistance benefits and Hawaii provides home energy assistance without differentiation between heating and cooling assistance. Some other States provide cooling assistance within their crisis assistance component.

Source: Data complied from telephone interviews with State offices in July 1985 by the Department of Health and Human Services. Telephone survey information is provisional and subject to change. U.S. Department of Health and Human Services, "Low-Income Home Energy Assistance Information Memorandum," Transmittal No. SSA-IM-85-24, Washington, D.C., August 27, 1985.

Section 12. Title XX Social Service Programs

TITLE XX SOCIAL SERVICES 1974–1981

In 1974, Congress enacted Public Law 92–672, which created a new title XX of the Social Security Act authorizing an entitlement for States for social services funds with certain goals for the program, public participation planning requirements, limitations on activities which could be funded, and eligibility requirements. Prior to that time the States were entitled to receive Federal matching funds for social services under the various public assistance titles of the Social Security Act. In 1972, Congress established a $2.5 billion annual ceiling on the entitlement with each State's share determined on the basis of its population relative to the total population of all the States. When title XX was enacted, the $2.5 billion ceiling was retained along with the allocation formula. Table 1 shows the title XX funding levels from the first year of the program through present law.

By fiscal year 1981 the entitlement ceiling for allocation to States for social services was $2.9 billion. In addition, $16.1 million of title XX funds was available for the territories for social services and $75 million was available to the States for staff training costs related to title XX activities. A total of $2,991,100,000 was available to States and territories for social services and training in fiscal year 1981 under title XX. As part of Public Law 96–272, enacted in 1980, the ceiling was increased from $2.9 billion to $3 billion in fiscal year 1982 and was increased by $100 million a year until it reached $3.3 billion in fiscal year 1985.

TITLE XX SOCIAL SERVICES BLOCK GRANT

The Omnibus Budget Reconciliation Act of 1981 (Public Law 97–35) amended title XX of the Social Security Act to establish a "Block Grant to States for Social Services" which combined the funding for social services for the States and territories and social services staff training. Public Law 97–35 reduced the title XX entitlement ceiling to $2.4 billion for fiscal year 1982 and provided for increases to $2.45 billion in fiscal year 1983, $2.5 billion in fiscal 1984, $2.6 billion in fiscal 1985 and $2.7 billion in fiscal 1986 and years thereafter.

The emergency jobs bill (Public Law 98–8), enacted in March 1983, appropriated an additional $225 million for fiscal year 1983 but which also was available for carryover to fiscal year 1984. These additional funds were allocated to the States on the basis of a formula intended to respond to the needs of the unemployed served by the jobs bill. One-half of the funds were allocated on the basis of population; one-third based on the number of unemployed individuals in the State; and one-sixth among those States whose average unadjusted unemployment rate from June 1982 through November 1982 was 9.4 percent or higher. In October 1983, as part of legislation to extend the Federal supplemental compensation program (Public Law 98-135) the title XX ceiling was increased by $200 million for fiscal 1984 to $2.7 billion and by $100 million for fiscal year 1985 to $2.7 billion.

Title XX social services block grant funds are allocated to the States on the basis of population. The allotments for Puerto Rico, Guam, the Virgin Islands and the Northern Marianas from the national total are based on their allocation for fiscal year 1981 reduced to reflect the new total funding level.

Table 1 shows the title XX funding levels since fiscal year 1976 and through the current law's entitlement ceiling for fiscal year 1987. Table 2 shows the total funds available to each State and territory under title XX in fiscal years 1985 through 1987. As discussed below, $12.5 million of the $25 million earmarked in fiscal year 1985 for staff training for day care services is available only if a State met certain requirements. Information is not yet available on how many States met those requirements, therefore the allocation figures show the full $25 million for fiscal year 1985. As part of the sequestration order for fiscal year 1986 under the Gramm-Rudman-Hollings legislation enacted in 1985, there is an anticipated reduction of 4.3 percent or $116 million in title XX funds available to States and territories in fiscal year 1986. While the current law entitlement ceiling is $2.7 billion for fiscal year 1986, the allocations to States in fiscal year 1986 in Table 2 reflects the reduced funding level.

The Federal funds are available to States without a State matching requirement, compared to the 25-percent State matching required for most of the title XX funds available to States under the old title XX law. With the enactment of Public Law 97-35, States have the authority to transfer up to 10 percent of their title XX social services allotment to one or any combination of the block grants for community services; low income home energy assistance; preventive health services; primary health care; and maternal and child health services. These block grant programs can also transfer money to title XX. The transfers to title XX programs from the low income home energy assistance program totaled approximately $98 million in fiscal year 1985.

SPECIAL TITLE XX FUNDING FOR CHILD DAY CARE STAFF AND PARENT TRAINING RELATED TO PREVENTING CHILD ABUSE

Because of the concern by Congress of reports of child sexual abuse in day care centers, a $25 million increase in title XX funding for fiscal year 1985 was appropriated for use by the States in providing training of child day care staff, State licensing and enforcement officials and of the parents of children in child day care. The earmarked funds were included in the continuing resolution for fiscal year 1985 (Public Law 98-473). One-half of the allotment to a State under the $25 million was available only if the State had in effect by September 30, 1985, procedures for screening and conducting background and criminal history checks of child care staff. While States received their share of the $25 million in fiscal 1985, if they did not meet the requirements of the law, their allocation will be reduced accordingly in fiscal 1986 or 1987.

Public Law 98-473 also required that, by January 12, 1985, the Secretary of HHS was to draft and distribute to the States for their consideration, a Model Child Care Standards Act with particular attention to staff training and supervision, employment history checks and parent visitation.

TABLE 1.—TITLE XX FUNDING LEVELS

[In millions of dollars]

Fiscal year	Entitlement ceiling
1976	[1]$2.575
1977	[1]2.796
1978	[1]2.791
1979	[1]2.991
1980	[2]2.791
1981	[2]2.991
1982	[3]2.400
1983	[4]2.675
1984	2.700
1985	[5]2.725
1986	[6]2.584
1987 and future years	2.700

[1] Included $16 million for Puerto Rico, Guam and the Virgin Islands and $59 million in fiscal year 76, $80 million in fiscal year 77 and $75 million in fiscal years 78 and 79 for title XX staff training.

[2] Included $16.1 million for Puerto Rico, Guam, the Virgin Islands and the Northern Marianas and $75 million for title XX staff training.

[3] Public Law 97-35 eliminated separate funding for title XX staff training.

[4] Includes $225 million appropriated in the emergency jobs bill (Public Law 98-8).

[5] Includes $25 million earmarked for training of day care providers, licensing officials and parents including training in the prevention of child abuse in child care settings.

[6] The entitlement ceiling for fiscal year 1986 is $2.7 billion. However, the Gramm-Rudman-Hollings legislation sequestration of funds for fiscal year 1986 reduced the funding by $116 million to $2.584 billion.

TABLE 2.—TITLE XX SOCIAL SERVICES FEDERAL ALLOCATION BY STATES

[In thousands of dollars]

	Fiscal year 1985			Fiscal Year—	
	Regular entitlement allocation	Day care training allocation	Total	1986 (est.)	1987 (est.)
Total	$2,700,000	$25,000	$2,725,000	$2,583,900	$2,700,000
Alabama	45,725	423.4	46,149	43,478	45,364
Alaska	5,079	47.0	5,126	5,260	5,685
Arizona	33,166	307.1	33,473	32,540	34,710
Arkansas	26,568	246.0	26,814	25,566	26,707
California	286,713	2,655.0	289,368	276,459	291,307

TABLE 2.—TITLE XX SOCIAL SERVICES FEDERAL ALLOCATION BY STATES—Continued

[In thousands of dollars]

	Fiscal year 1985			Fiscal Year—	
	Regular entitlement allocation	Day care training allocation	Total	1986 (est.)	1987 (est.)
Colorado	35,312	327.0	35,638	34,472	36,132
Connecticut	36,564	338.6	36,903	34,461	35,859
Delaware	6,981	64.6	7,046	6,655	6,969
District of Columbia	7,317	67.8	7,385	6,841	7,083
Florida	120,790	1,118.4	121,908	117,287	124,791
Georgia	65,393	605.6	65,999	62,948	66,363
Hawaii	11.527	106.7	11,634	11,235	11,813
Idaho	11,191	103.6	11,294	10,861	11,381
Illinois	132,757	1,229.2	133,987	126,139	130,873
Indiana	63,445	587.5	64,032	60,170	62,509
Iowa	33,688	311.9	34,000	31,903	33,085
Kansas	27,925	258.6	28,183	26,631	27,718
Kentucky	42,525	393.7	42,918	40,787	42,328
Louisiana	50,584	468.4	51,053	48,737	50,730
Maine	13,139	121.7	13,261	12,585	13,143
Maryland	49,459	458.0	49,917	47,266	49,446
Massachusetts	67,040	620.7	67,660	63,332	65,920
Michigan	105,633	978.1	106,611	99,595	103,177
Minnesota	47,929	443.8	48,372	45,509	47,319
Mississippi	29,583	274.0	29,857	28,410	29,538
Missouri	57,415	531.6	54,946	54,580	56,938
Montana	9,289	86.0	9,375	8,972	9,368
Nebraska	18,392	170.3	18,562	17,538	18,259
Nevada	10,217	94.6	10,311	9,785	10,358
New Hampshire	11,028	102.1	11,130	10,532	11,108
New Jersey	86,255	798.7	87.054	82,013	85,441
New Mexico	15,760	145.9	15,906	15,364	16,190
New York	204,784	1,896.1	206,680	194.018	201,636
North Carolina	69,800	646.3	70,446	66,792	70,092
North Dakota	7,770	71.9	7,842	7,468	7,799
Ohio	125,139	1,158.7	126,297	118,012	122,244
Oklahoma	36,842	341.1	37,183	36,218	37,496
Oregon	30,719	284.4	31,004	29,234	30,402
Pennsylvania	137,593	1,274.0	138,867	130,630	135,307
Rhode Island	11,110	102.9	11,212	10,488	10,937
South Carolina	37,144	343.9	37,488	35,846	37,519

TABLE 2.—TITLE XX SOCIAL SERVICES FEDERAL ALLOCATION BY STATES—Continued

[In thousands of dollars]

	Fiscal year 1985			Fiscal Year—	
	Regular entitlement allocation	Day care training allocation	Total	1986 (est.)	1987 (est.)
South Dakota	8,013	74.2	8,087	7,687	8,027
Tennessee	53,936	499.4	54,435	51,450	53,629
Texas	177,195	1,640.7	178,836	172,680	181,785
Utah	18,021	166.9	18,188	17,780	18,782
Vermont	5,984	55.4	6,039	5,766	6,026
Virginia	63,677	589.6	64,266	60,950	64,078
Washington	49,227	455.8	49,683	47,222	49,446
West Virginia	22,590	209.2	22,799	21,580	22,193
Wisconsin	55,258	511.6	55,769	52,175	54,187
Wyoming	5,821	53.9	5,875	5,645	5,810
Puerto Rico	13,966	129.3	14,095	13,365	13,966
Guam	466	4.3	470	446	466
Virgin Islands	466	4.3	470	446	466
Northern Marianas	93	.9	94	89	93

Source: Department of Health and Human Services.

PLANNING AND ADMINISTRATIVE REQUIREMENTS

As under previous title XX law, States are required to make available for public comment a report on how the funds are to be used, including information about the types of social services, and related training and administrative activities to be funded and the characteristics of the individuals to be served. This report is also to be submitted to the Department of Health and Human Services. At least every two years, the State must prepare a post-expenditure report describing the activities for which funds were expended and the extent to which funds were spent in a manner consistent with the pre-expenditure report. At least every two years. States must arrange for an independent audit of these expenditures.

While there are now fewer Federal requirements than previously regarding public participation in the development of a State's title XX plan, a survey of States conducted by the American Public Welfare Association shows almost all the States have indicated that they have no plans to reduce the amount or substantially change their methods of public participation.

TITLE XX PROGRAM GOALS

The purpose of the title XX social services program is to provide assistance to States to enable them to furnish services directed at the five goals of the statute:

—Achieving or maintaining economic self-support to prevent, reduce, or eliminate dependency;
—Achieving or maintaining self-sufficiency, including reduction or prevention of dependency;
—Preventing or remedying neglect, abuse, or exploitation of children and adults unable to protect their own interests, or preserving, rehabilitating or reuniting families;
—Preventing or reducing inappropriate institutional care by providing for community-based care, home-based care, or other forms of less intensive care; and
—Securing referral or admission for institutional care when other forms of care are not appropriate, or providing services to individuals in institutions.

RECIPIENTS OF TITLE XX FUNDED SOCIAL SERVICES

In fiscal year 1979, when the ceiling on title XX services funds was $2.9 billion, over 7.2 million individuals were recipients of title XX services.

Under the old title XX law, eligibility for title XX funded social services was determined by the States within certain parameters set by Federal law.

The 1981 Budget Reconciliation Act eliminated the federally mandated priority that at least 50 percent of the Federal title XX funds received by a State must be expended for services to recipients of AFDC, SSI or medicaid.

The 1981 Budget Reconciliation Act also eliminated the following provisions in the title XX program related to targeting services to low income individuals and families:

—With certain exceptions, no person with gross family income higher than 115 percent of the State's median income for a family of four (adjusted for family size) could receive title XX funded services. The exceptions were protective services for abused or neglected children or adults, family planning services and information and referral services.
—States had to charge fees reasonably related to income for services to individuals or families with income higher than 80 percent of the State's median income or the median income of all States, whichever was lower, and they could, at their option, charge fees for services to persons below that income level.

While States no longer have to set eligibility standards or target funds within certain parameters set by Federal title XX law, many States had chosen income eligibility criteria lower than the Federal maximum income eligibility limits under the old title XX law. Therefore, it could be expected that the income eligibility criteria that States now use do not exceed that of previous years and most likely would be lower because of the reductions in the title XX ceiling.

In fiscal year 1980, 27 percent of those receiving title XX services were AFDC recipients; 11 percent were SSI recipients; 4 percent were medicaid recipients who were not AFDC or SSI recipients; 21 percent of the recipients received services provided without regard to income or welfare status; and 37 percent were eligible according to income criteria.

TYPES OF SOCIAL SERVICES PROVIDED UNDER TITLE XX

Under the title XX social services block grant program each State must submit a report to the Secretary of Health and Human Services on the intended use of the funds. These pre-expenditure reports only are required to include information about the types of activities to be funded and the characteristics of the individuals to be served. Therefore, there is very limited information on the use of title XX funds by the States.

Table 3 is a list of the primary services offered by the largest number of States taken from a summary of the pre-expenditure reports for fiscal year 1984 prepared by the Department. Currently, the most frequently provided services are: home-based services, day care for children, protective and emergency services for children and adults, and adoption services. Fiscal year 1979 is the most recent year for which data are available on the percentage of total title XX dollars spent for various types of social services.

Day care services for children consumed about 21 percent of all Federal funds spent for title XX in fiscal year 1979. Home based services, such as homemaker/chore services, accounted for about 16 percent of all Federal funds in 1979. Protective services and other services related to child foster care accounted for another 16 percent.

Homemaker/chore services include, for example, an individual trained by the local welfare agency to go into the home of an aged or disabled individual a few hours a week to assist with meal preparation, cleaning, and personal care to enable them to remain in their home.

Protective services for children include the activities of a child-welfare caseworker who is responsible for investigating and managing cases of child abuse or neglect. For example, a caseworker may visit a home after reports are received from a doctor or a neighbor of possible child abuse and determine whether the home situation warrants recommending removal of the children and placement in foster care.

In another situation, the caseworker will have to determine whether the child care training provided by a private family service agency to a teenage mother enables her to care for her two children who currently are in foster care.

In another situation, the caseworker may have to arrange for an emergency caretaker to stay with some children in their own home instead of being placed in an institution while their mother is in a hospital receiving emergency medical care.

Although title XX provides discretion to States to define services to accomplish the goals of the title XX program, there are certain limitations. Title XX funds may not be used:

(1) for the purchase or improvement of land, or the purchase, construction, or permanent improvement (other than minor remodeling) of any building or other facility;

(2) for the provision of cash payments for costs of subsistence or for the provision of room and board (other than costs of subsistence during rehabilitation, room and board provided for a short term as an integral but subordinate part of a social serv-

ice, or temporary emergency shelter provided as a protective service);

(3) for payment of the wages of any individual as a social service (other than payment of the wages of welfare recipients employed in the provision of child day care services);

(4) for the provision of medical care (other than family planning services, rehabilitation services, or initial detoxification of an alcoholic or drug dependent individual) unless it is an integral but subordinate part of a social service;

(5) for social services (except services to an alcoholic or drug dependent individual or rehabilitation services) provided in and by employees of any hospital, skilled nursing facility, intermediate care facility, or prison, to any individual living in such institution;

(6) for the provision of any educational service which the State makes generally available to its residents without cost and without regard to their income;

(7) for any child day care services unless such services meet applicable standards of State and local law; or

(8) for the provision of cash payments as a service (except as otherwise provided in (2) above).

The Secretary of the Department of Health and Human Services may grant a State's request to waive the prohibition against the use of title XX funds for medical services or against the purchase or improvement of land or buildings where it is found that extraordinary circumstances justify such uses.

TABLE 3.—SERVICES TO BE PROVIDED BY THE STATES, FISCAL YEAR 1984 [1]

Services	Number of States	Services	Number of States
Home-based services	51	Prevention and intervention services	28
Day care—children	50		
Protective and emergency services—children	47	Residential care and treatment	26
Protective and emergency services—adults	45	Transportation services	25
Adoption	38	Home delivered/congregate meals	24
Disabled services	36	Special services for children and youth	24
Foster care—children	34	Health-related services	23
Information and referral	34	Foster care—adults	20
Employment, education and training	31	Legal services	16
Family planning services	31	Substance abuse services	14
Social support services	30	Placement services	13
Day care—adults	29	Housing services	12
Counseling	28	Services for unmarried parents	10

[1] Includes 50 States, the District of Columbia, and the four eligible territories.

Source: Department of Health and Human Services.

Section 13. Child Welfare, Foster Care and Adoption Assistance Program—Title IV, Parts B and E

Although child protective services in America date back to the 19th century, the first protective services were provided by voluntary private organizations. The passage of the Social Security Act in 1935 was an impetus for greater State involvement in public child protective services. During the following two decades, 35 States enacted statutes assigning responsibility for the protection and care of neglected children to State agencies.

The development of public protective services also was accelerated by the 1962 amendments to the Social Security Act. That legislation required that each State extend child welfare services to all political jurisdictions within the State, and made AFDC foster care and services available to abused and neglected children from families who were receiving, or were potentially eligible for AFDC.

The 1974 amendments to the Social Security Act (Public Law 92-603), which established the title XX social services program, required that each State provide child protective services on a statewide basis.

The Adoption Assistance and Child Welfare Act of 1980, Public Law 96-272, enacted on June 17, 1980, authorized a modified foster care program and a new adoption assistance program under a new part E of title IV of the Social Security Act. In the new part E and in the modifications made in the IV-B child welfare services program, a comprehensive set of services, procedures, and safeguards are described which all States are to implement within the next several years.

Summary of Federal Funding of Child Welfare, Foster Care, and Adoption Activities Under the Social Security Act

The Social Security Act contains four primary sources of funds available to States for child welfare, foster care, and adoption activities. These funding authorizations include both nonentitlement authorizations and authorized entitlements; i.e., a State is entitled to claim Federal matching funds for those activities which qualify under the requirements of the Federal law. Those programs are:

—Title IV-B Child Welfare Services program (nonentitlement authorization)

—Title IV-E Foster Care program (authorized entitlement)

—Title IV-E Adoption Assistance program (authorized entitlement)

—Title XX Social Services Block Grant (authorized entitlement with funding ceiling; State discretion as to portion of State's allocation used for child welfare and adoption activities)

Table 1 shows the funds that have been used or allocated to States under titles IV-B and IV-E in fiscal years 1982 through

1985 and the estimated amounts for fiscal years 1986 and 1987. Under the title XX Social Services Block Grant program, States may choose what portion of their allocation they will spend on child welfare, foster care and adoption activities. Title XX funds, as described further in Section 12, generally may not be used for maintenance costs or health care unless they are an integral part of a social service. Prior to the elimination of most of the reporting requirements for title XX in 1981, States reported that approximately 16 percent of title XX funds were spent on child welfare, foster care and adoption services. Under the current title XX $2.7 billion ceiling, that would mean that about $400 million of title XX funds are spent on such services.

In addition to the funds allocated to the States or available on an entitlement basis, $15 million was appropriated for fiscal year 1986 for activities authorized under Section 426 of title IV-B for direct Federal grants to public and private entities for child welfare staff training and child welfare research and demonstration projects.

Funds available to States from the title IV-B child welfare program and the title XX Social Services program may be used for services to families and children without regard to their eligibility for AFDC. Federal matching funds for foster care maintenance payments and adoption assistance payments under title IV-E are only provided in those cases where the child would have been eligible for AFDC if still in the home and, in the case of adoption assistance is also available if the child was eligible as an SSI disabled or blind child.

TABLE 1.—FEDERAL FUNDING FOR CHILD WELFARE, FOSTER CARE, AND ADOPTION ACTIVITIES UNDER TITLES IV-B AND IV-E OF THE SOCIAL SECURITY ACT, 1982-87

[In thousands of dollars]

Fiscal year	Title IV-B child welfare services [1]	Title IV-E foster care State claims	State use of FC funds for IV-B child welfare services	Adoption assistance title IV-E	Total—titles IV-B and IV-E
1982	156,326	334,246	20,560	4,684	515,816
1983	156,326	384,490	32,610	12,096	585,522
1984	165,000	422,220	32,180	24,243	643,643
1985	200,000	497,631	[4] 19,592	32,000	749,223
1986 (est.)	[2] 198,099	[3] 488,049	19,592	46,000	737,740
1987 (est.)	200,000	524,310	20,000	60,000	804,310

---

[1] States that had not been determined by HHS to have implemented Section 427 protections, received about 10 percent less funds that would have been their allocation under the appropriation for fiscal years 1982 and 1983, 15 percent less in fiscal year 1984 and 30 percent less in fiscal year 1985. Public Law 96-272 requires HHS to reallocate such funds to those States that do meet the Section 427 requirements for the year.

[2] Funding level for fiscal year 1986 assumes a 4.3 percent reduction in the $207 million IV-B child welfare funds appropriated due to the sequestration of 4.3 percent of the funds under the Gramm-Rudman-Hollings legislation.

[3] Funding level for title IV-E foster care assumes a $6 million reduction from funds that would otherwise be provided to States because of the denial of Federal matching of State increases in foster care payment rates required under the fiscal year 86 sequestration order under the Gramm-Rudman-Hollings legislation.

[4] Reduction from previous year in the amount transferred is due largely to the increase in title IV-B which limits the amount that a State can transfer under an "optional" ceiling to the additional amount that a State would have received if the IV-B appropriation was the full authorization of $266 million.

TITLE IV-B CHILD WELFARE SERVICES PROGRAM

Title IV-B of the Social Security Act authorizes funds for the purpose of assisting States in providing services to children and families in need of child welfare services. Funds appropriated are allocated to the States according to a formula based on the number of children under age 21 and inversely with average per capita income. Federal matching is provided at the rate of 75 percent.

The full authorization for the title IV-B program of grants to States is $266 million. As shown in Table 1, the appropriation for fiscal year 1985 was $200 million and $207 million was appropriated for fiscal year 1986. However, the sequestration order under the Gramm-Rudman-Hollings legislation would reduce that amount by 4.3 percent to $198,099,000. Eligibility of a State for their share of funds appropriated in excess of $141 million is dependent on the State implementing certain procedures and services required under the 1980 child welfare reform law which is described later.

Child welfare services are defined in title IV-B to mean social services which are directed toward the accomplishment of the following purposes:

—*Protecting and promoting* the welfare of all children, including handicapped, homeless, dependent or neglected children;

—*Preventing* or remedying, or assisting in the solution of problems which may result in the neglect, abuse, exploitation, or delinquency of children;

—*Preventing* the unnecessary separation of children from their familes by identifying family problems, assisting families in resolving their problems and preventing breakup of the family where the prevention of child removal is desirable and possible;

—*Restoring* to their families children who have been removed, by the provision of services to the child and the families;

—*Placing children in suitable adoptive homes*, in cases where restoration to the biological family is not possible or appropriate; and

—*Assuring adequate care of children away from their homes*, in cases where the child cannot be returned home or placed in adoption.

There are no income or AFDC or SSI related eligibility restrictions on the States' use of title IV-B child welfare services funds. States are to submit a State plan which describes the uses to be made of the funds including staff development and training plans.

According to data collected each year by the American Humane Society reports of child abuse and neglect have increased from 669,000 in 1976 to 1,477,000 in 1983. The rate of reported child abuse and neglect has increased from 10.1 per 1,000 U.S. children to 23.6 per 1,000 children.

In a separate survey by the Child Welfare League, it was found that there was a further increase of 16 percent in child abuse and neglect reports from 1983 to 1984. From this same survey, it was found that reports of sexual abuse increased by an average of 59 percent from 1983 to 1984. Sexual abuse accounted for 14 percent of total reports of abuse and neglect in 1984. From the States that provided such information, it was found that, upon investigation, 55 percent of the reported cases of sexual abuse were substantiated.

Increased reports of child abuse and neglect have placed an increased burden on child protection agencies. Most State agencies have developed formal or informal policies of screening reports of abuse or neglect into priority categories for purposes of reponding in a timely manner. However, in some States the protective services staff have no investigative discretion and must investigate all reports of abuse and neglect within twenty-four hours.

FOSTER CARE

Foster care involves the provision of full-time substitute care for children outside of their parental home.

The foster care/substitute care population is defined for the voluntary foster care reporting system participated in by the States as the following: Children residing outside of their own homes under the case management and planning responsibility of the primary State child welfare agency, or a child placing agency under contract with the primary State agency. "Residing outside of their own homes" is defined to include such living arrangements as foster family or adoptive foster homes, group homes, child care facilities, emergency shelter care, supervised independent living, non-finalized adoptive home placements and all other arrangements regarded as 24-hour substitute care by the State agency, except finalized adoptive home placements.

Foster care services, in addition to the actual care and maintenance involved in foster care, also includes for example, counselling related to parent-child separation; preparation for foster care placement appropriate to the needs of the child; supervision during placement; consultation and services planning with the foster family or group home or institution staff; services to the natural parents and family and; related case planning and case review activities.

Recruitment, study, approval and training of foster parents and group care staff is also part of foster care services.

There is considerable variation among the States as to the role of the public child welfare agency in the State related to the care of children who come into care through the juvenile justice system, or are in care because of the mental or physical handicap of the child.

An HHS study compared practices in three counties in three different States—Dallas County, Texas, Jefferson County, Colorado, and Monroe County, New York. In New York and Colorado, children who came to the attention of the juvenile justice agency but were not judged to require a secure detention facility, were referred to the child welfare agency for placement. In contrast, in Dallas County, Texas, the child welfare agency did not accept children referred by the juvenile justice agency nor did they accept children whose parents wished to place them in foster care. The result was the average age of children entering foster care in Dallas County was 6 compared to 11 years of age in Jefferson and Monroe County.

Title IV-E Foster Care Program

The title IV-E foster care program is an authorized entitlement under which States can claim Federal matching funds for their expenditures for foster care maintenance payments and related administrative costs for the care of certain children.

Federal matching for foster care maintenance payments is the same percent as the State can claim for AFDC payments which ranges from 50 percent to 78 percent and which is inversely related to the per capita income of the State. Federal matching for administrative costs is at the 50 percent rate.

States may claim Federal matching funds under title IV-E only for that portion of their foster care program which provides care for AFDC related children; i.e., children who except for their being removed from their home and being placed in foster care would be eligible for AFDC.

As shown in Table 1, State claims for Federal matching funds for foster care is expected to increase from $334 million in fiscal year 1982 to an estimated $524 million in fiscal year 1987. According to HHS, in fiscal year 1983, approximately 30 percent of the State claims were for administrative expenses but with wide variation among the States. Current HHS regulations give the following examples of allowable administrative costs for the foster care program: referral to services; preparation for and participation in judicial determinations; placement of the child; development of the case plan; case reviews; case management and supervision; recruitment and licensing of foster homes and institutions rate setting and; a proportionate share of agency overhead.

Table 2 provides State-by-State information on the monthly average number of children that States have or are expected to claim Federal matching for in fiscal years 1981-1986. In fiscal year 1985 the number was an estimated 100,000 and has varied little from this number for a number of years. As discussed later, the average total number of children in foster care in the States in 1983 was 269,000. Therefore, States claim Federal matching funds for approximately 38 percent of the children in foster care. This percentage varies considerable among the States depending on such factors as to whether the States provide AFDC benefits under the AFDC-unemployed parent program and thus expands the eligibility under the AFDC foster care program.

Included in Table 3 is State-by-State information on State claims for Federal matching funds for foster care under title IV-E for fiscal years 1982-1984 and estimated claims for fiscal years 1985-1987. States have 2 years in which to submit claims and therefore the figures for fiscal year 1985 are still estimates. Table 3 also shows foster care funds which a State chooses to transfer to use for child welfare services under a voluntary foster care ceiling for the State. This option is discussed later under the provisions of the 1980 child welfare reform law.

Children eligibile under the title IV-E foster care program are eligible for Medicaid. In addition, States have the option under the Federally assisted Medicaid program to provide for Medicaid eligibility for non-IV-E eligible foster care children as a special category of medically needy children.

Family foster care accounts for approximately 55 percent of Federal expenditures (75 percent of placements); foster care group homes and other institutions account for 45 percent of Federal expenditures (but only 25 percent of placements). In a 1982 survey of States' family foster care reimbursement rates it was found that, for example, for a 6-year-old child in foster care the monthly rate was between $150 and $200 in 30 States. In 13 States the family foster care rate for a 6-year-old child was over $200, and between $120 and $150 in another 8 States. Most States also provide additional payments to foster parents who provide care for handicapped or other children with special needs.

TABLE 2.—AVERAGE MONTHLY NUMBER OF AFDC FOSTER CARE CHILDREN

[Fiscal years 1981–1984, 1985–1986 (est.)]

Name of State	1981	1982	1983	1984	1985 (est.)	1986 (est.)
Totals	106,433	103,274	98,727	100,787	100,000	102,049
Alabama	1,516	1,544	1,528	1,513	1,501	1,513
Alaska	56	45	55	19	19	19
Arizona	618	455	584	507	503	507
Arkansas	395	370	406	395	392	395
California	16,708	17,520	16,797	18,197	18,055	18,197
Colorado	529	559	707	1,204	1,195	1,204
Connecticut	775	795	1,105	1,100	1,091	1,100
Delaware	273	249	272	295	293	295
District of Columbia	1,882	1,693	1,806	1,592	1,580	1,592
Florida	1,151	1,194	1,399	1,954	1,939	1,439
Georgia	1,398	1,218	1,368	1,602	1,589	1,602
Hawaii	21	21	17	26	26	26
Idaho	199	171	162	156	155	156
Illinois	5,528	5,135	4,672	4,107	4,075	4,107
Indiana	1,676	1,439	1,464	1,487	1,475	1,487
Iowa	651	627	642	656	651	656
Kansas	1,590	1,328	1,111	1,046	1,038	1,046
Kentucky	1,286	1,265	1,145	1,153	1,144	1,153
Louisiana	1,767	1,547	1,616	1,980	1,965	1,980
Maine	1,145	1,042	898	825	819	825
Maryland	2,334	2,108	1,928	1,805	1,791	1,805
Massachusetts	561	1,049	937	927	920	927
Michigan	5,785	5,862	5,840	6,082	6,035	6,082
Minnesota	1,699	1,342	1,802	1,665	1,652	1,665
Mississippi	879	835	780	750	744	750
Missouri	2,098	1,916	2,174	1,748	1,734	1,888
Montana	250	259	382	357	354	357
Nebraska	599	652	623	635	630	635

TABLE 2.—AVERAGE MONTHLY NUMBER OF AFDC FOSTER CARE CHILDREN—Continued

[Fiscal years 1981–1984, 1985–1986 (est.)]

Name of State	1981	1982	1983	1984	1985 (est.)	1986 (est.)
Nevada	209	209	239	224	222	224
New Hampshire	484	474	488	467	463	487
New Jersey	1,615	1,464	1,763	3,320	3,294	3,350
New Mexico	222	164	172	302	300	302
New York	20,173	19,607	18,434	16,481	16,352	16,891
North Carolina	5,157	4,611	1,433	1,524	1,512	1,524
North Dakota	335	342	350	280	278	280
Ohio	3,530	3,289	3,625	4,186	4,153	4,171
Oklahoma	791	911	832	904	897	904
Oregon	1,314	1,460	1,457	1,357	1,346	1,357
Pennsylvania	5,359	5,300	5,300	5,213	5,172	6,762
Rhode Island	429	400	519	781	775	459
South Carolina	527	449	606	845	838	845
South Dakota	400	432	362	282	280	282
Tennessee	1,730	1,493	1,401	1,135	1,126	1,135
Texas	2,661	2,542	2,590	2,685	2,664	2,685
Utah	229	194	252	295	293	295
Vermont	269	295	291	431	428	431
Virginia	2,276	2,136	1,913	1,984	1,969	1,984
Washington	812	1,021	1,179	1,203	1,194	1,203
West Virginia	605	650	584	774	768	760
Wisconsin	3,898	3,555	2,674	2,266	2,248	2,266
Wyoming	39	36	43	65	64	65

Source: Office of Human Development Services.

Characteristics of Children in Foster Care/Substitute Care

The most recent and complete data on the foster care programs administered by State and local child welfare agencies has been gathered by the American Public Welfare Association through the Voluntary Cooperative Information System (VCIS) which is financed by a grant from the Department of Health and Human Services. The data gathered through VCIS is not limited to children for whom States claim Federal matching funds under the title IV-E foster care program. Instead, the data is based on all the children in the State in foster care/substitute care; i.e., residing outside of their homes under the case management and responsibility of the primary State child welfare agency, or a child placing agency under contract with the State.

The following are highlights from the VCIS information for fiscal year 1983:

—447,000 children were served by the nation's foster care programs in fiscal year 1983.

—269,000 children were in foster care at the end of fiscal year 1983.

—184,000 children entered foster care during 1983.

—Of the 447,000 children served by the nation's foster care system in fiscal year 1983, approximately 40 percent or 178,000 children were discharged from care.

—Race/ethnicity of children who entered care in fiscal year 1983:

	Percent
White	56.4
Black	26.7
Hispanic	10.3
Other	4.5
Unknown	2.1

—Of the children who left foster care in fiscal year 1983, information from the 28 States which supplied this specific information shows:

56.3 percent were reunified or placed with a parent, relative or caretaker.

11.5 percent were placed for adoption or were adopted.

9.4 percent reached the age of majority.

20.4 percent other reasons (running away, incarceration, marriage, death, discharged to another agency or having legal guardianship established).

—39 percent of the children who entered care in fiscal year 1983 were 13 years of age or older and nearly one-half (48.4) or 130,000 of the children in care at the end of fiscal year 1983 were 13 or older.

—Nearly 70 percent of the children in care at the end of fiscal year 1983 were in foster family homes, rather than in group care or residential settings.

—The median length of stay in foster care for children in care at the end of fiscal year 1983 was 1.6 years.

TABLE 3.—AFDC FOSTER CARE FEDERAL MATCHING FUNDS STATE CLAIMS FISCAL YEARS 1982–86 AND TRANSFER OF FOSTER CARE FUNDS TO TITLE IV–B CHILD WELFARE SERVICES BY STATES UNDER OPTIONAL STATE-BY-STATE FOSTER CARE CEILINGS FOR FISCAL YEAR 1985

[In thousands of dollars]

States	Fiscal year				Transfer of foster care funds to IV–B child welfare services 1985	1986 (est.)
	1982	1983	1984	1985 (est.)		
Total	334,246	373,314	398,180	455,183	19,592	488,049
Alabama	2,293	2,140	2,660	2,729	270	2,461
Alaska	476	148	520	88	0	65
Arizona	1,497	1,733	1,890	1,796	0	2,264
Arkansas	453	546	530	618	404	643
California	57,909	82,592	65,230	105,888	0	108,562
Colorado	677	1,066	1,050	1,561	132	2,491
Connecticut	1,510	2,735	1,860	3,878	0	3,214
Delaware	336	369	410	442	155	447
Dist. of Columbia	8,978	5,410	1,450	7,451	0	7,800
Florida	1,900	2,391	2,050	3,220	550	3,137
Georgia	5,156	6,881	4,930	7,706	0	7,514
Hawaii	30	24	30	39	0	61
Idaho	258	253	410	304	358	318
Illinois	6,946	5,902	10,050	6,028	0	9,017
Indiana	889	913	1,210	1,031	1,627	1,139
Iowa	1,273	1,678	2,000	2,062	529	1,936
Kansas	3,236	3,339	4,510	3,907	632	3,746
Kentucky	1,298	1,972	1,910	2,739	0	4,644
Louisiana	4,453	5,304	5,760	12,193	0	11,314
Maine	2,267	2,948	2,900	2,435	0	2,629
Maryland	2,786	3,060	3,890	3,259	626	5,108
Massachusetts	2,395	2,570	4,970	5,291	0	4,763
Michigan	24,118	28,162	29,780	34,488	0	37,535
Minnesota	3,794	4,150	6,880	7,039	0	6,688
Mississippi	896	968	1,410	1,188	400	1,104
Missouri	2,074	2,130	2,640	2,356	0	10,813
Montana	1,177	1,473	1,520	1,718	0	1,545
Nebraska	1,773	1,657	1,800	2,386	0	2,781
Nevada	438	384	570	373	0	381
New Hampshire	816	978	770	1,286	0	1,304
New Jersey	2,060	2,638	2,900	5,282	0	8,212
New Mexico	214	396	190	599	0	2,209
New York	139,577	123,700	149,590	136,557	4,192	140,556

BEST COPY AVAILABLE

TABLE 3.—AFDC FOSTER CARE FEDERAL MATCHING FUNDS STATE CLAIMS FISCAL YEARS 1982-86 AND TRANSFER OF FOSTER CARE FUNDS TO TITLE IV-B CHILD WELFARE SERVICES BY STATES UNDER OPTIONAL STATE-BY-STATE FOSTER CARE CEILINGS FOR FISCAL YEAR 1985—Continued

[In thousands of dollars]

States	Fiscal year				Transfer of foster care funds to IV-B child welfare services 1985	1986 (est.)
	1982	1983	1984	1985 (est.)		
North Carolina	1,898	2,013	2,420	2,297	525	2,137
North Dakota	814	933	960	874	28	805
Ohio	3,906	4,680	5,490	6,214	0	6,612
Oklahoma	1,768	4,288	1,840	4,143	0	3,039
Oregon	4,843	5,614	5,840	7,147	728	5,929
Pennsylvania	11,070	25,000	28,310	25,525	3,059	29,547
Rhode Island	895	1,425	920	1,237	0	971
South Carolina	536	761	730	1,443	0	1,747
South Dakota	707	673	1,010	569	136	553
Tennessee	1,737	2,150	2,500	1,885	1,519	1,716
Texas	5,626	5,567	6,810	7,098	0	9,667
Utah	441	654	580	864	0	1,013
Vermont	1,083	1,590	1,240	1,914	0	2,529
Virginia	2,915	2,976	3,780	3,249	1,512	3,209
Washington	1,584	4,189	3,650	4,879	1,069	3,941
West Virginia	1,450	1,352	1,740	2,503	0	7,208
Wisconsin	8,904	9,180	12,000	15,226	1,046	10,802
Wyoming	116	111	90	177	95	223

CHILD WELFARE AND FOSTER CARE REFORMS

The Adoption Assistance and Child Welfare Act of 1980, Public Law 96-272, enacted on June 17, 1980, authorizes a modified foster care program and a new adoption assistance program under a new part E of title IV of the Social Security Act. In the new part E and in the modifications made in the title IV-B child welfare services program, a comprehensive set of services, procedures, and safeguards are described which all States are to implement within the next several years. In enacting this law, Congress anticipated that the funding for the title IV-B child welfare services program would steadily increase from $56 million in fiscal year 1979 to reach $266 million by fiscal year 1983. These anticipated increases in Federal funds for title IV-B child welfare services were to provide States initially with some additional resources to assist them in implementing the described services, procedures and safeguards. Also, the availability of the funds to the States was structured to provide States financial incentives to implement them as quickly as possible. However, while the title IV-B appropriation increased to $163 million for fiscal year 1981, it was $156 million for both fiscal years 1982 and 1983, $165 million in fiscal year 1984 and was increased to $200 million for fiscal year 1985 and to $207 million for fiscal year 1986. However, the sequestration order under the Gramm-Rudman-Hollings legislation would reduce that funding to $198,099,000. Table 4 shows the State-by-State allocations under title IV-B for fiscal years 1984-1986.

As part of the initial effort to improve the situation for children currently in foster care, the law provides for States to conduct an inventory of all children who have already been in foster care for over 6 months to determine whether current placement is appropriate and the services needed. In addition, each State is to implement a foster care information system to insure that information on the foster children's characteristics and the goals of the placement of each child readily available to caseworkers and administrators.

The law provides that a case plan is to be developed for each foster care child describing the services that will be provided to the family and child to improve the conditions in the home and meet the treatment needs of the child while in foster care. It also requires that there be an independent administrative review of the case every 6 months to determine the continuing appropriateness of the services, to determine the continuing necessity for placement in care, and to set a date by which the child can be returned home, freed for adoption or otherwise permanently placed. There must also be a mandatory dispositional hearing within 18 months of the original placement of the child in foster care. This hearing must be held in a family or juvenile court, or other court of competent jurisdiction or by an administrative body appointed by a court.

In cases where preventive services cannot alleviate the need for out of home placement of a child, the case plan and case review system is to ensure that a child is to be placed in the least restrictive setting, and in reasonable proximity to his family to increase the chances of the child being returned to his home.

States are to provide family reunification services for foster care children and their families to alleviate the conditions necessitating placement and to enable the child to return home as quickly as possible.

State and local governments are also to provide such preventive services as family counseling 24-hour crisis intervention for families, and emergency caretakers to provide emergency child care in the home as means to prevent the unnecessary removal of children or extended by placement out of the home.

FINANCIAL INCENTIVES TO STATES TO IMPLEMENT IMPROVED CHILD WELFARE SERVICES AND PROCEDURES

There are a number of financial incentives to States to implement the new child welfare and foster care system including the following:

Foster care funding ceiling if child welfare services fully funded

First, the law provides for a temporary State-by-State ceiling on Federal AFDC funding for foster care in effect through fiscal year 1986. This ceiling is intended to create financial incentives to States to implement procedures to reduce unnecessary placement or extended placement in foster care. However, the Federal mandatory ceiling on foster care funds is only in effect when title IV-B child welfare services appropriations reach certain specified levels. That amount is $266 million in fiscal year 1986.

A State may use anyone of the following methods to calculate the most favorable ceiling: (1) the State's fiscal year 1978 Federal foster care funds increased by 33⅓ percent for fiscal year 1981, and increased thereafter by twice the increase in the CPI each year but not to exceed 10 percent each year; (2) the State's share of $100 million relative to its population under 18; or (3) for those States with foster care caseloads below the national average, the State's funds increased by a percent equal to its caseload growth but not more than 10 percent, plus the increase provided in (1).

Increased services funds if a State provides certain services and procedures

Second, while a State can receive its share of $141 million of title IV-B appropriations without conducting the inventory, without having an operational information system and without case planning, case review, and family reunification services, a State cannot receive its share of title IV-B appropriations in excess of $141 million unless it has in place such procedures and services. In addition, when title IV-B appropriations reach the authorized maximum of $266 million for 2 consecutive years, a State could continue to receive additional funding over its share of $56.5 million only if it has also implemented a preventive services program designed to prevent the need for removing children from their natural homes.

State plan and judicial determination if preventive services provided

Third, the new law establishes more specific State plan requirements under the new title IV-E authorization for foster care. Effective October 1, 1983, for a State to be eligible for Federal funds for AFDC-related children in foster care, the State title IV-E State plan must provide that prior to placement in foster care reasonable efforts will be made, in the case of such children, to eliminate the need for the removal of the child from the home, to make it possible for the child to return to his home and that there will be a case plan and a case review for each such child. Also, effective October 1, 1983, for a State to be eligible to receive Federal funds for a child placed in foster care there must have been a judicial determination that reasonable efforts have been made to provide services to prevent the removal of the child from the home.

Federal funding of voluntarily placed foster care children

Fourth, States which implement the child welfare/foster care services and procedures are able to claim, through September 30, 1986, Federal foster care matching funds for children who are placed in foster care under a voluntary placement agreement between the agency and parents. Under the old law, eligibility for Federal foster care funds was limited to those children removed from the home as a result of a judicial determination that continuance in the home would be contrary to the child's welfare. The intent of this provision is to give parents the opportunity to ask for help rather than having a court order the child into care.

A voluntary placement agreement between the agency and the parents must specify, at a minimum, the legal status of the child and the rights and obligations of the parents or guardians, the child, and the agency while the child is in placement. Federal matching for voluntarily placed foster care children does not continue after 6 months unless there has been a judicial determination that the continued placement is in the best interest of the child. Also, parents have the right to revoke the voluntary placement agreement unless the State agency obtains a judicial determination that the return of the child to the home would be contrary to the child's best interests.

In fiscal year 1984, 15 States claimed Federal matching funds for children in foster care under voluntary placement agreements and involved 2,567 children. Sixty-nine percent of the children were reunited with their families; 28 percent remained in foster care more than 6 months and received a judicial review of their situation as required by statute and the remaining 3 percent either reached the age of majority or were adopted.

State option for transfer of foster care funds to child welfare services

Fifth, States gain flexibility in the use of Federal foster care funds under a voluntary foster care ceiling if they have implemented the child welfare/foster care services and procedures. A portion of the Federal foster care matching funds made available under the ceiling which are not used for foster care maintenance can be used for IV-B child welfare services. In years when the IV-B child welfare services appropriation is insufficient to trigger a mandatory foster care ceiling a State can opt for a voluntary ceiling to gain the option to use foster care funds for child welfare services. The provision in the law which provides States this option expires September 30, 1986, concurrently with the foster care ceiling provision. Under the optional foster care ceiling, States cannot transfer more foster care funds to title IV-B services than an amount which, together with the IV-B funds it receives, exceeds the amount of IV-B funds it would have received if the IV-B appropriation for such year had been sufficient to require a ceiling on foster care funds in all States. Table 2 shows that States used this option to transfer $20 million in fiscal year 1982, $32 million in fiscal year 1983, and transferred $32 million in fiscal year 1984, and $19 million in 1985. Table 3 provides State-by-State data on the transfers for fiscal year 1985.

IMPLEMENTATION OF CHILD WELFARE AND FOSTER CARE REFORMS

Section 427 of title IV-B specifies the child welfare services and foster care protections and procedures which a State must be found to be providing before it can qualify for certain of the financial incentives described earlier; that is, a State qualifying for its share of title IV-B appropriations in excess of $141 million or being permitted to transfer funds from its foster care ceiling allotment for a given year to use for child welfare services. States were notified by HHS officials in June 1981 that instead of the Department conducting reviews at that time of States child welfare and foster care programs to determine if a State was actually providing the service and procedures required under section 427, States would be allowed to "self certify" compliance. Initially, 34 States "self certified" that in fiscal year 1981, they were in compliance with the section 427 provisions of the new law.

In June 1982, HHS officials provided material to their regional offices for use in validating States certification of compliance which had been submitted to HHS approximately a year earlier. As of January 1986, 40 States have received approval for fiscal year 1984 following on-site reviews by Department officials; 5 States have been denied and a final decision has not been made for 2 States. The remaining States did not "self certify" or withdrew from the certification process. Table 4 shows those States which have been approved by the Department of Health and Human Services as meeting the requirements under section 427 for fiscal year 1984. It also shows those States for which a decision is pending and those denied.

TABLE 4.—TITLE IV-B CHILD WELFARE SERVICES STATE-BY-STATE ALLOCATIONS AND STATUS OF STATES COMPLIANCE WITH SECTION 427 CHILD WELFARE PROTECTIONS

[In thousands of dollars]

States	Fiscal year			States compliance with section 427—child welfare protections—fiscal year 1984
	1984	1985	1986	
Total	[1] $165,000	[2] $200,000	[3] 198,099	
Alabama	3,452	4,549	4,089	Approved
Alaska	307	275	360	Not certified
Arizona	2,097	2,864	2,804	Approved
Arkansas	2,031	2,536	2,452	Approved
California	14,066	18,943	17,270	Disapproved (1983)
Colorado	2,025	2,754	2,399	Approved
Connecticut	1,633	2,118	1,786	Approved
Delaware	454	530	515	Approved
District of Columbia	334	418	359	Disapproved (1983)
Florida	6,365	6,793	7,713	Approved
Georgia	4,726	5,756	5,642	Approved
Hawaii	721	639	900	Not certified
Idaho	924	1,134	1,161	Approved
Illinois	6,984	8,819	8,559	Approved
Indiana	4,124	4,962	5,012	Approved

TABLE 4.—TITLE IV–B CHILD WELFARE SERVICES STATE-BY-STATE ALLOCATIONS AND STATUS OF STATES COMPLIANCE WITH SECTION 427 CHILD WELFARE PROTECTIONS—Continued

[In thousands of dollars]

States	Fiscal year			States compliance with section 427—child welfare protections—fiscal year 1984
	1984	1985	1986	
Iowa	2,043	2,684	2,499	Approved
Kansas	1,611	1,947	1,911	Approved
Kentucky	3,149	3,818	3,725	Approved
Louisiana	3,802	4,747	4,501	Approved
Maine	987	1,298	1,499	Approved
Maryland	2,628	3,159	3,061	Disapproved (1983)
Massachusetts	3,507	2,936	3,873	Not certified
Michigan	6,174	8,095	7,686	Disapproved/pending
Minnesota	2,848	3,759	3,383	Approved
Mississippi	2,599	3,154	3,140	Approved
Missouri	3,623	4,800	4,276	Approved
Montana	3,694	917	851	Approved
Nebraska	1,189	1,571	1,417	Pending
Nevada	570	680	711	Approved
New Hampshire	737	956	832	Approved (1983)
New Jersey	4,105	5,406	4,618	Approved
New Mexico	1,288	1,740	1,577	Approved
New York	10,440	12,529	12,123	Approved
North Carolina	4,854	6,447	5,776	Approved
North Dakota	579	759	652	Approved
Ohio	7,484	7,681	9,027	Disapproved
Oklahoma	2,340	3,239	2,881	Approved
Oregon	1,853	2,233	2,311	Approved
Pennsylvania	7,622	9,161	9,027	Approved
Rhode Island	684	877	778	Approved
South Carolina	2,917	3,899	3,475	Approved
South Dakota	648	851	773	Approved
Tennessee	3,802	4,583	4,497	Approved
Texas	11,151	14,902	13,804	Approved
Utah	1,732	2,403	2,259	Approved
Vermont	486	284	560	Pending
Virginia	3,778	1,239	4,364	Approved
Washington	2,665	3,248	3,331	Approved
West Virginia	1,640	1,975	1,946	Approved
Wisconsin	3,424	4,387	4,030	Approved
Wyoming	397	363	488	Not certified

TABLE 4.—TITLE IV–B CHILD WELFARE SERVICES STATE-BY-STATE ALLOCATIONS AND STATUS OF STATES COMPLIANCE WITH SECTION 427 CHILD WELFARE PROTECTIONS—Continued

[In thousands of dollars]

States	Fiscal year			States compliance with section 427—child welfare protections—fiscal year 1984
	1984	1985	1986	
Territories:				
Guam	224	258	270	
Northern Marianas	96	102	104	Not certified
Puerto Rico	4,234	3,632	5,139	Not certified
Virgin Islands	212	191	252	Not certified
Results:				
Approved				40
Disapproved				4
Disapproved/pending				1
Pending				2
Not certified				7

---

[1] Computed as if all States meet Section 427 requirements and are eligible for share of amounts above $141 million.

Source: Office of Human Development Services.

ADOPTION SERVICES AND ASSISTANCE PROGRAMS

"Adoption" means the judicial act of creating the legal relationship of parent and child where it did not exist previously. However, State laws generally require that surrounding the judicial act of adoption that there are legal processes and child welfare services which protect children and the other parties involved. States may use funds from their allocations under the title IV–B Child Welfare program and the title XX Social Services Block Grant for adoption activities without regard to the AFDC or SSI eligibility of the children. Since October 1, 1980, Federal matching funds for adoption assistance payments and related administrative expenses have been available to States under title IV–E of the Social Security Act for AFDC and SSI eligible children.

Number of adoptions

There are no official Government estimates on the number of children adopted each year in the United States. One estimate by the National Committee for Adoption based on a survey published in 1985, was that there were 50,700 nonrelative adoptions in 1982. That survey also produced the estimate that of those adoptions, 14,000 were of children with "special needs"; and 5,700 were of children from outside the United States.

Based on this same survey, an estimated 19,000 children had adoptions finalized through activities of public adoption agencies during the year ending September 30, 1982.

Adoption procedures and services

Activities and services provided by either public or licensed private nonprofit agencies and which can be allocated to the costs related to the adoption of a child include the following:

—Recruitment of potential adoptive parents;

—Legal and child welfare services related to the termination of birth parents parental rights;

—Home study of prospective adoptive parents by adoption worker;

—Legal and adoption worker services for "placement for adoption" for a trial period pursuant to State law;

—Adoption worker counseling of family and child and provision of an assessment to the Court of the appropriateness of the adoption placement;

—Services related to the filing of an adoption petition by the prospective adoptive parents and a final adoption decree being issued by a Court; and

—Post adoption counseling or other support services related to the "special needs" of the adopted child.

These costs are in addition to the cost of adoption assistance payments provided to some adoptive parents and Medicaid for the adopted "special needs" child which are partially funded under the Federal adoption assistance program.

Title IV-E Adoption Assistance Program

The Adoption Assistance and Child Welfare Amendments of 1980, (P.L. 96-272) authorized a new entitlement program of Federal matching funds for State adoption assistance programs intended to lessen the barriers to the adoption of "children with special needs." Federal matching funds for the adoption assistance payments are provided at the same rate as for the State's AFDC and Medicaid program as is the case for AFDC foster care. States have been required since October 1982 to have an adoption assistance program under title IV-E of the Social Security Act.

In order to qualify for Federal matching payments for the adoption assistance payments, there must be a finding that the child has "special needs" and that because of those special needs it is reasonable to conclude that the child could not be placed with adoptive parents unless the adoption assistance is provided. "Special needs" include such factors as the child's ethnic background, membership in a minority group, age, physical, mental or emotional handicap or other mental condition, or the need to place the child with his or her brothers and sisters.

Adoptive parents of such children can be provided monthly adoption assistance payments in an amount no greater than what would have been paid if the child was in foster care.

The adoption assistance payments are to be made pursuant to a binding adoption assistance agreement between concerned parties covering the amount of the payments to be made and additional services or assistance that is to be provided. The amount of the payments is determined between the parents and the agency, based on the circumstances of the adoptive parents and the needs of the child. The amounts may be adjusted based on changed circumstances. The payments may continue until the child is 18; if the child is mentally or physically handicapped, payments may continue until age 21 at State option.

Only children, who prior to being placed in adoption, were eligible for AFDC, were AFDC foster care children (i.e., would have been eligible for AFDC if they were not in foster care), and SSI disabled or blind children are eligible under the adoption assistance provisions of title IV-E of the Social Security Act.

When adoption assistance payments are made on behalf of a child eligible under title IV-E, the adoptive child is deemed to be receiving AFDC and therefore eligible for Medicaid from the State making such payments. In some cases the need for health services is the primary barrier to the adoption of the child and therefore a minimal adoption assistance payment is made just to qualify the child for Medicaid. States also have the option under the Medicaid program to provide Medicaid coverage for special needs adopted children who do not qualify under the AFDC or SSI related eligibility requirements of title IV-E but have been identified as a special category of medically needy children under a State's Medicaid State plan.

States may claim 50 percent Federal matching for administrative expenses related to the provision of adoption assistance under the title IV-E Adoption Assistance program. According to a policy announcement by HHS in August 1983, States may claim matching funds for administrative costs for the following activities: recruitment of adoptive homes; placement of the child in the adoptive home; home studies of the prospective adoptive home; case planning; case management; and case review activities.

Table 5 shows the Federal share of the cost of the title IV-E Adoption Assistance program in fiscal years 1984 and 1985 and the estimated expenditures for fiscal years 1986 and 1987. The cost of the adoption assistance program has grown from less than $5 million in fiscal year 1982 to an estimated nearly $60 million in fiscal year 1987. An estimated 25,000 children are expected to benefit from the Adoption Assistance program in fiscal year 1987.

TABLE 5.—ADOPTION ASSISTANCE ESTIMATED STATE CLAIMS

State	1984	1985	1986 [1]	1987
Total	$24,243,343	$32,267,889	$41,947,702	$59,904,000
Alabama	83,705	111,412	144,281	178,000
Alaska				
Arizona	343,145	456,726	593,744	705,000
Arkansas	133,574	177,786	231,122	209,000
California	4,169,128	5,549,109	7,213,842	8,220,000
Colorado	72,625	96,664	125,663	120,000
Connecticut	95,787	127,493	165,741	184,000
Delaware	5,043	6,713	8,727	40,000
District of Columbia	160,805	214,032	278,241	1,627,000
Florida	783,727	1,043,141	1,356,084	2,337,000

TABLE 5.—ADOPTION ASSISTANCE ESTIMATED STATE CLAIMS—Continued

State	1984	1985	1986 [1]	1987
Georgia	22,506	29,956	38,942	65,000
Hawaii	3,371	4,487	5,833	10,000
Idaho	42,033	55,947	72,730	30,000
Illinois	664,151	883,958	1,149,180	2,688,000
Indiana	133,005	177,030	230,139	424,000
Iowa	117,144	155,919	202,695	289,000
Kansas	107,514	143,101	186,031	216,000
Kentucky	177,263	235,937	306,718	451,000
Louisiana	103,950	138,357	179,864	391,000
Maine	97,888	130,289	169,376	353,000
Maryland	265,962	353,996	460,194	560,000
Massachusetts	326,934	435,149	565,694	617,000
Michigan	3,095,771	4,120,471	5,356,613	6,581,000
Minnesota	366,325	487,578	633,852	798,000
Mississippi	153,664	204,527	265,885	414,000
Missouri	78,897	105,012	136,515	883,000
Montana	50,665	67,435	87,665	92,000
Nebraska	168,531	224,314	291,608	407,000
Nevada	11,160	14,854	19,310	27,000
New Hampshire	39,577	52,676	68,479	119,000
New Jersey	300,317	399,722	519,638	932,000
New Mexico				232,000
New York	9,272,185	12,341,278	16,043,661	22,293,000
North Carolina	118,722	158,019	205,425	318,000
North Dakota	75,928	101,060	131,378	192,000
Ohio	334,197	444,816	578,261	1,208,000
Oklahoma	33,449	44,588	57,964	128,000
Oregon	39,164	52,127	67,765	91,000
Pennsylvania	353,663	470,726	611,944	325,000
Rhode Island	223,799	297,876	387,239	168,000
South Carolina	59,061	78,611	102,194	233,000
South Dakota	21,884	29,128	37,866	59,000
Tennessee	153,430	204,215	265,480	337,000
Texas	149,430	198,891	258,559	1,396,000
Utah	35,869	47,742	62,064	103,000
Vermont	26,151	34,807	45,249	193,000
Virginia	183,489	244,223	317,490	495,000
Washington	382,831	509,548	662,413	723,000
West Virginia	21,681	28,857	37,515	158,000
Wisconsin	584,191	777,558	1,010,828	1,285,000
Wyoming				

Footnote on next page.

[1] The amounts for Fiscal Year 1986 do not take into account the reduction that would apply under the special sequestration rules that apply to adoption assistance payments under the Fiscal Year 1986 sequestration under the Gramm-Rudman-Hollings legislation. An estimated $1.6 million of federal matching funds for adoption assistance payments would be denied for State's increases in adoption assistance rates that go into effect during Fiscal Year 1986.

Source: Office of Human Development Services.

APPENDIX I. EXPLANATION AND IMPACT OF MAJOR CHANGES ENACTED INTO LAW DURING 1981 TO 1985 FOR SPENDING PROGRAMS WITHIN THE JURISDICTION OF THE COMMITTEE ON WAYS AND MEANS

This appendix presents estimates for the major legislative changes enacted into law during 1985 and from 1981 through 1985 for programs with spending authority within the jurisdiction of the Committee on Ways and Means.

Table 1 contains January 1985 estimates of the outlay impact of legislative changes enacted between 1981 and 1984. For example, table 1 indicates that outlays for Social Security for fiscal year 1986 would be $9.1 billion greater if no legislative changes had taken place after 1980. Table 2 is identical to table 1, except that it illustrates the reduction in outlays as a percentage of prior law outlays. For example, the number −4.5 for Social Security in fiscal year 1986 means that Social Security outlays were reduced 4.5 percent relative to a baseline with the same economic assumptions in fiscal year 1986 except that the baseline assumes no legislative changes in Social Security after 1980. The next line illustrates the percentage reduction in after-tax value of Social Security benefits.

A few additional notes about tables 1 and 2:

1. The change in percentage reductions in table 2 are not very meaningful particularly for Trade Adjustment Assistance. The decline from 90 to 81 percent is primarily a reflection of the fact that as unemployment falls, so would spending under pre-OBRA policies.

2. The change in outlays for the Social Services Block Grant is more technically the change in funding authority for that program.

3. The Medicare outlay reductions do not include changes in premiums for beneficiaries.

Table 1 illustrates the total amount of outlay reductions on a unified budget basis as a result of legislative changes enacted during 1984 by major program area.

TABLE 1.—SPENDING EFFECTS OF LEGISLATIVE CHANGES SINCE 1981 [1]

[By fiscal year, in billions of dollars; (− indicates outlay reduction, + outlay increase)]

	1982	1983	1984	1985	1986	1987	1988
1981–1984:							
Trade adjustment assistance	−1.3	−0.9	−0.6	−0.4	−0.3	−0.3	−0.3
Social Security	−1.6	−4.5	−8.0	−9.1	−9.1	−9.6	−9.9
Unemployment compensation	−1.0	+2.3	+2.3	+.4	−.6	−.5	−.4
Aid to families with dependent children	−.9	−.9	−1.0	−1.0	−1.1	−1.2	−1.2
Child support enforcement	0	−.1	−.1	−.1	(*)	(*)	(*)
SSI	(*)	+.1	+.7	+.8	+.8	+.8	+.9
Social services block grant [2]	−.7	−.5	−.6	−.7	−.7	−.7	−.7
Earned income tax credit	0	0	0	(*)	+.3	+.2	+.2
Medicare: [3]							
Hospital insurance	−.4	−2.3	−2.6	−3.2	−5.7	−7.3	−9.1
SMI	−.2	−.6	−1.0	−2.3	−2.9	−3.2	−3.4
Total	−6.1	−7.4	−10.9	−15.6	−19.3	−21.8	−23.9
Taxation of Social Security [4]			−.9	−3.2	−3.8	−4.5	−5.4
Taxation of unemployment compensation [5]		−.7	−.7	−.6	−.5	−.5	(6)
Premiums [7]		+.1	+.3	−.4	−.2	−.1	−.1
Total including taxing of benefits and premiums	−6.1	−8.0	−12.2	−19.8	−23.8	−26.9	(6)
1985:							
P.L. 99–15 (UC)				.2			
P.L. 99–177					−.5		
Emergency extensions (SMI)					−.2		
Freeze DRG rates [8]					−1.5	−2.2	−2.7
Total—1985				.2	−2.2	−2.2	−2.7
Total 1981–1985	−6.1	−8.0	−12.2	−19.6	−26.0	−29.1	(6)

* Less than $50 million.

Footnotes on next page.

[1] These estimates are very uncertain. They require estimating what spending would have been under the policies in effect in 1981, comparing these estimates to actual spending for 1982 to 1984, and projecting the differences for 1985 through 1988. It is, however, increasingly difficult to estimate what spending would have been under the policies in effect in 1981. Since 1981, changes have occurred in the economy, in the demographic composition of the population, in the policies of State governments, and in Federal administrative practices. Each of these factors has potentially affected spending in these programs. It is very difficult to identify separately the independent effects of Federal legislation.

[2] Change in funding ceiling.

[3] Does not include impact of premium changes.

[4] CBO estimate of January 1984.

[5] Department of Treasury estimate—January 1984.

[6] Not available.

[7] (−) indicates a premium increase. They include the impact of reduced SMI outlays on premiums.

[8] None by regulation. However, ability to reduce hospital insurance outlays is a result of the prospective payment reforms enacted in 1983.

Note: These are January 1985 CBO estimates unless otherwise indicated.

TABLE 2.—PERCENTAGE CHANGE IN OUTLAYS RESULTING FROM LEGISLATIVE CHANGES ENACTED DURING 1981 to 1984 ON PROGRAMS WITHIN THE JURISDICTION OF THE COMMITTEE ON WAYS AND MEANS

	Fiscal year			
	1985	1986	1987	1988
Trade adjustment assistance	−9.0	−8.1	−8.1	−8.1
Social Security	−4.5	−4.5	−4.3	−4.1
Including taxation of benefits	−6.1	−6.1	−6.3	−6.4
Unemployment compensation	+2.4	−3.4	−2.8	−2.2
Including taxation of benefits	−1.2	−6.2	−5.6	(1)
Aid to families with dependent children	−10.5	−11.4	−12.0	−11.5
Supplemental security income	7.6	7.5	7.2	7.2
Social Services Block Grant	−20.6	−20.6	−20.6	−20.6
Earned income tax credit	.1	24.1	23.3	22.2
Medicare:				
Hospital insurance	−6.9	−10.0	−11.4	−12.6
SMI	−9.3	−10.1	−9.9	−9.2
Total	−7.2	−10.0	−10.9	−11.5
Total outlays	−4.9	−5.7	−6.0	−6.1
Including taxing of benefits and premiums	−6.2	−7.0	−7.4	(1)

[1] Not available.

Source: Compiled by Committee staff from information provided by CBO.

TABLE 3.—UNIFIED BUDGET IMPACT OF LEGISLATIVE CHANGES ENACTED DURING 1984 ON PROGRAMS WITHIN THE JURISDICTION OF THE COMMITTEE ON WAYS AND MEANS [1]

[In millions of dollars]

	Fiscal year						
	1984	1985	1986	1987	1988	1989	1990
Social Security:							
OASI		−22	−15	−15	−15	−14	(2)
DI		311	348	351	289	204	(2)
Supplemental security income		31	−54	−44	0	20	35
Aid to families with dependent children	−5	133	128	153	188	193	203
Child support enforcement	5	57	67	70	47	14	−9
Social Services Block Grant			25				
Earned income tax credit		9	257	237	217	200	(2)
Medicare	−77	−1,196	−2,026	−2,798	−2,944	−3,218	(2)
Total	−77	−677	−1,270	−2,046	−2,218	−2,601	(2)

[1] See footnotes which accompany table 4.

[2] Not available.

Source: Congressional Budget Office.

During 1985, there were seven different laws enacted which affected outlays for programs within the jurisdiction of the Committee on Ways and Means. Public Law 99–15 allowed beneficiaries of Federal supplemental compensation (FSC) who had not exhausted their entitlement to benefits during the week of March 31, 1985 (the last week of the program under current law) to collect the remainder of their FSC entitlement. These remaining weeks of benefits must be collected during 1985. This increased outlays by $160 million in fiscal year 1985.

Congress enacted five emergency extension acts which affected hospital and physician reimbursement under medicare Public Law 99–107 amended current law to provide that hospital payment rates that were in effect on September 30, 1985, would remain in effect for a further 45-day period, through November 14, 1985. Public Law 99–155 extended this requirement through December 18, 1985, and Public Law 99–201 extended the requirement through March 14, 1986.

The above Public Laws also extended the payment terms established for physicians in the Deficit Reduction Act of 1984. Physicians are bound during the extension period by the decisions they made regarding participation for the year beginning October 1, 1985, and are subject to the corresponding payment rules.

In total, the extensions decreased fiscal year 1986 HI outlays by $659 million, decreased SMI outlays by $222 million, and decreased medicaid outlays by $4 million. These estimates are relative to a baseline where hospital DRG rates were assumed to increase at the same rate as inflation in a market basket of hospital inputs. There are substantial outyear impacts of freezing hospital and physician reimbursement rates.

In addition, the Balanced Budget and Emergency Deficit Control Act of 1985 (P.L. 99–177) was passed. For a more complete decription, see Part 5. This legislation reduced outlays (benefits) in the following programs:

[In millions]

	Fiscal year—	
	1986	1987
Medicare	300	0
Title XX	109	7
Child Welfare Services (Foster care, adoption assistance, and child welfare services)	12	4
Child Support Enforcement	33	0
Unemployment compensation	1	0
Total	455	11

However, the greatest impact of Public Law 99–177 is on the Federal cost for administering programs within the jurisdiction of the committee. These are shown in Table 4 below.

TABLE 4.—BUDGET AUTHORITY FOR FEDERAL ADMINISTRATIVE COSTS FOR 1985, 1986, REDUCTION PURSUANT TO PUBLIC LAW 99-177, 1986 AS MODIFIED AND 1987

[In millions of dollars]

Program	1985	1986	Reduction pursuant to Public Law 99-177	1986 [1]	1987 [2]
OASI	1,690	1,835	−79	1,756	1,834
DI[3]	410	505	−22	483	545
SSI[3]	705	760	−33	727	729
AFDC	38	37	−2	35	36
UI [4]	1,601	1,654	−71	1,583	1,727
IRS	3,575	3,642	−157	3,485	4,098
Custom service	670	717	−31	686	693
Medicare [5]	1,735	[6] 2,070	−89	[6] 1,981	1,867
Total	10,424	11,220	−484	10,736	11,529

[1] As modified by Public Law 99-177.

[2] As proposed by the Administration.

[3] Base does not include state DDS budget authority which is not subject to sequestration under P.L. 97-177.

[4] Payments to states for state unemployment insurance operations.

[5] Medicare includes HI and SMI, both HCFA and non-HCFA costs.

[6] Includes 2-year obligational authority for PRO's. The 1986 base is $390 million which was reduced to $373.2 million as a result of P.L. 99-177.

Note: 1986 numbers do not include supplementals or rescissions as proposed by the Administration.

APPENDIX J. CHARACTERISTICS AND POVERTY STATUS OF FAMILIES WITH CHILDREN AND COMBINED IMPACT OF AFDC, FOOD STAMPS AND FEDERAL TAXES ON FAMILIES: SELECTED YEARS 1960 TO 1984

POVERTY DATA

How Poverty Is Measured

When the Federal Government began measuring poverty in the early 1960's, the continued existence of poor people in a time of the "Affluent Society" seemed anomalous. Official concern soon translated into efforts to measure the size of the poverty population, and the search began for programmatic ways to alleviate poverty. The first rough estimates of the incidence of poverty were based on survey data indicating that families generally spent about one-third of their income for food. A poverty level income was then calculated by using as a yardstick the amount of money necessary to purchase the lowest cost "nutritionally adequate" diet calculated by the Department of Agriculture (roughly equivalent to the current Thrifty Food Plan). This price tag was multiplied by 3 to produce a poverty threshold. Thus, this procedure assumed that if a family did not have enough income to buy the lowest nutritionally adequate diet, and twice that amount for other goods and services, it was "poor." Appropriate adjustments were made for the size of the family, sex of family head, and for whether the family lived on the farm or not. Farm families were assumed not to need as much cash income because more of their needs could be met through farm products—particularly food. (Differentials for sex of family head and for farm-nonfarm residence were abolished in 1981.) Policy officials made one change to the basic approach for calculating the level of poverty in 1969. Current poverty levels are established each year simply by increasing the previous year's level by the change in the Consumer Price Index (CPI) rather than multiplying the cost of the Thrifty Food Plan by 3. The poverty thresholds for selected years are shown in table 1.

TABLE 1.—WEIGHTED AVERAGE POVERTY THRESHOLDS FOR NONFARM FAMILIES OF SPECIFIED SIZE, SELECTED YEARS, 1959–85

Calendar year	Unrelated individuals			Families of 2 or more persons							
				2 persons							
	All ages	Under age 65	Aged 65 or older	All ages	Head under age 65	Head aged 65 or older	3 persons	4 persons	5 persons	6 persons	7 persons or more
1959	$1,467	$1,503	$1,397	$1,894	$1,952	$1,761	$2,324	$2,973	$3,506	$3,944	$4,849
1960	1,490	1,526	1,418	1,924	1,982	1,788	2,359	3,022	3,560	4,002	4,921
1965	1,582	1,626	1,512	2,048	2,114	1,906	2,514	3,223	3,797	4,264	5,248
1970	1,954	2,010	1,861	2,525	2,604	2,348	3,099	3,968	4,680	5,260	6,468
1975	2,724	1,797	2,581	3,506	3,617	3,257	4,293	5,500	6,499	7,316	9,022
1976	2,884	2,959	2,730	3,711	3,826	3,445	4,540	5,815	6,876	7,760	9,588
1977	3,075	3,152	2,906	3,951	4,072	3,666	4,833	6,191	7,320	8,261	10,216
1978	3,311	3,392	3,127	4,249	4,383	3,944	5,201	6,662	7,880	8,891	11,002
1979	3,689	3,778	3,479	4,725	4,878	4,390	5,784	7,412	8,775	9,914	12,280
1980	4,190	4,290	3,949	5,363	5,537	4,983	[illegible]	8,414	9,966	11,269	[1] 12,761
1981	4,620	4,729	4,359	5,917	6,111	5,498	[illegible]	9,287	11,007	12,449	[1] 14,110
1982	4,901	5,019	4,626	6,281	6,487	5,836	[illegible]	9,862	11,684	13,207	[1] 15,036
1983	5,061	5,180	4,775	6,483	6,697	6,023	[illegible]	10,178	12,049	13,630	[1] 15,500
1984	5,278	5,400	4,979	6,762	6,983	6,282	[illegible]	10,609	12,566	14,207	[1] 16,096
1985 (est.)	5,470	5,590	5,160	7,000	7,230	6,510	[illegible]	10,990	13,010	14,710	[1] 16,670

[1] Poverty threshold for 7 persons, not 7 persons or more.

Source: Bureau of the Census and Social Security Administration.

TRENDS IN THE OVERALL POVERTY RATE [1]

About 14.4 percent of the U.S. population, 33.7 million people, had family incomes below the official poverty threshold in 1984. This is a significant decline from the 1983 poverty rate of 15.3 percent which was the highest level since 1965.

This section focuses on historical data for the time period 1959–84. Throughout this time period there were substantial differences between the overall poverty rate and the poverty rate of certain demographic subgroups (table 2). The overall poverty rate declined from 22.4 percent in 1959 to 11.1 in 1973, climbed to 15.3 percent in 1983 and then fell to 14.4 percent in 1984. While the rates for some demographic groups have declined, a number of rates have remained relatively high. The poverty rate for blacks failed to fall below 30.3 percent over this period. The rate for individuals in a family with a female head did not fall below 32 percent. The poverty rate for children was higher than 14 percent throughout these years.

The trends for these and other demographic groups are described below using the official census definition of poverty which is based upon pretax cash income. The census poverty rate is one measure of poverty that has been fairly standard over time. This type of measure can be useful in measuring progress against poverty. However, it should be noted that the method of estimating the poverty threshold was revised by the Census Bureau four times over this period—in 1966, 1974, 1979, and 1981. These revisions have had an impact upon the number of people in poverty. The first two revisions slightly reduced the number of poor, while the more recent changes increased the number. In 1984, the Census Bureau revised their method of imputing missing values for interest income. This revision lowered the poverty rate slightly.

---

[1] All poverty trend information is based upon published Census Bureau data contained in "Money Income and Poverty Status of Families: 1978," p–60, No. 124; "Money Income and Poverty Status of Families: 1982," p–60, No. 140; "Money Income and Poverty Status of Families and Persons in the United States: 1983" and "Money Income and Poverty Status of Families and Persons in the United States: 1984," p–60, No. 149. All figures for children are for related children under 18 in families. These figures may differ with other parts of this report which provide a more refined breakdown of this age category. Data for blacks, the aged, and nonaged population were not available for the years 1961 to 1965.

TABLE 2.—POVERTY RATES AND NUMBERS OF PEOPLE IN POVERTY FOR SELECTED DEMOGRAPHIC GROUPS OVER TIME

	1959	1966	1970	1975	1978	1979	1980	1981	1982	1983	1984
Overall number in poverty (in thousands)	39,490	28,510	25,420	25,877	24,497	26,072	29,272	31,822	34,398	35,515	33,700
Poverty rate (percent)	22.4	14.7	12.6	12.3	11.4	11.7	13.0	14.0	15.0	15.3	14.4
Aged:											
Number (in thousands)	5,481	5,114	4,709	3,317	3,233	3,682	3,871	3,853	3,751	3,730	3,330
Poverty rate (percent)	35.2	28.5	24.5	15.3	14.0	15.2	15.7	15.3	14.6	14.2	12.4
Children:											
Number (in thousands)	17,208	12,146	10,235	10,882	9,722	9,993	11,114	12,068	13,139	13,449	12,929
Poverty rate (percent)	26.9	17.4	14.9	16.8	15.7	16.0	17.9	19.5	21.3	21.8	21.0
Individuals in female headed families:											
Number (in thousands)	10,390	10,250	11,154	12,268	12,880	13,503	14,649	15,738	16,336	16,848	16,440
Poverty rate (percent)	50.2	41.0	38.2	34.6	32.3	32.0	33.8	35.2	36.2	35.8	34.0
Blacks:											
Number (in thousands)	9,927	8,867	7,548	7,545	7,625	8,050	8,579	9,173	9,697	9,888	9,490
Poverty rate (percent)	55.1	41.8	33.5	31.3	30.6	31.0	32.5	34.2	35.6	35.7	33.8
Spanish origin:											
Number (in thousands)				2,991	2,607	2,921	3,491	3,713	4.301	4,641	4,806
Poverty rate (percent)				26.9	21.6	21.8	25.7	26.5	29.9	28.1	28.4
Whites:											
Number (in thousands)	28,484	19,290	17,484	17,770	16,259	17,214	19,699	21.553	23,517	24,189	22,955
Poverty rate (percent)	18.1	11.3	9.9	9.7	8.7	9.0	10.2	11.1	12.0	12.2	11.5

[1] Spanish origin may be of any race.

NA—Not available.

Source: "Money Income and Poverty Status of Families and Persons in the United States: 1984," p-60, No. 149.

TABLE 3.—COMPOSITION OF POVERTY POPULATION FOR SELECTED DEMOGRAPHIC GROUPS

[Percent of poverty population]

	1959	1966	1975	1982	1983	1984
Aged	13.9	17.9	12.8	10.9	10.5	9.9
Children	43.6	42.6	42.1	38.2	37.9	38.4
Nonaged adults	42.5	39.5	45.1	50.9	51.6	51.7
Individuals in female-headed families	26.3	36.0	47.4	47.5	47.4	48.8
Individuals in male present families	73.7	64.0	52.6	52.5	52.6	51.2
Blacks	25.1	31.1	29.2	28.2	27.8	28.2
Whites	72.1	67.7	68.7	68.4	68.1	68.1
Other races	2.8	1.2	2.1	3.4	4.1	3.7
Spanish origin [1]	NA	NA	11.6	12.5	13.1	14.3

[1] Spanish origin may be of any race.

Source: Estimates based on data from "Money Income and Poverty Status of Families and Persons in the United States: 1984," p-60. No. 149.

In the late 1950's and early 1960's the number of poor persons in the United States stood around 39.5 million, representing approximately 22 percent of the total population. Between 1959 and 1969 this number declined at an annual rate of roughly 1.5 million per year. The largest decline in the number of people below the poverty threshold for this 10-year period occurred between 1964 and 1969. From 1969 to 1971 the rate stayed about the same, perhaps as a result of the sluggish economy. From 1971 to 1973 the rate continued to decline, but at a slower pace than in the earlier period. In 1973 the overall poverty rate was 11.1 percent, its lowest level over the entire 24-year period. This rate represented 23.0 million individuals in families with incomes below the poverty threshold. During the recession of 1974 and 1975 the rate increased slightly to 12.3 percent. From 1975 through 1978 the rate varied between 11.4 percent and 12.3 percent. Since 1978, the poverty rate has increased. By 1983 the overall rate had increased 34 percent from its 1978 level, to 15.3 percent. The 1984 poverty rate of 14.4 represents a 6 percent decrease from the 1983 rate.

POVERTY RATES BY FAMILY TYPE [2]

Female-headed families with children, and unrelated individuals are more likely to be poor than other families with children or families with aged members. Table 4 shows that in 1984, 46.5 percent of female-headed families with children were poor, as opposed to 9.8 percent for male-present families. Although only about 7.2

---

[2] Income figures reported in this section were derived from the March 1985 Current Population Survey (CPS) computer data tape. There is a tendency in surveys, such as the CPS, for respondents to underreport their incomes by both source and amount. Reporting of income from earnings is usually more accurate than the reporting of income from other sources. In general, CPS estimates of amounts or numbers of recipients of various cash and noncash transfer programs tend to be lower than administrative program totals. As a result, the data are a better reflection of general trends and patterns than of absolute numbers with income from a particular source, or the amount received.

Unrelated subfamilies are included as families in this analysis. The Census Bureau excludes such families from its poverty counts.

percent of all families with an aged member were poor, 24.2 percent of all aged unrelated individuals were poor. About 20.9 percent of nonaged unrelated individuals were poor.

TABLE 4.—PERCENTAGE OF FAMILIES AND UNRELATED INDIVIDUALS BY RATIO OF TOTAL INCOME TO POVERTY THRESHOLD,[1] 1984

	Ratio of total income to poverty threshold										
	Under 0.50	0.50 to 0.74	0.75 to 0.99	1.00 to 1.24	1.25 to 1.49	1.50 to 1.99	2.00 to 2.99	3.00 and over	Poor	Nonpoor	Total (in thousands)
Total:											
In families	4.6	3.5	3.8	4.2	4.4	9.7	19.9	49.9	11.9	88.1	63,232
Unrelated individuals	7.8	5.5	8.6	8.1	7.2	10.8	18.1	34.0	21.8	78.2	30,268
No members age 65 or over:											
In families	5.3	3.8	3.9	4.0	4.1	8.9	19.3	50.7	13.0	87.0	51,547
Unrelated individuals	9.9	5.5	5.5	5.0	5.5	9.7	19.2	39.8	20.9	79.1	21,505
Any member age 65 or over:											
In families	1.5	2.0	3.7	5.3	5.7	13.0	22.8	46.0	7.2	92.8	11,685
Unrelated individuals	2.6	5.4	16.3	15.8	11.6	13.4	15.3	19.6	24.2	75.8	8,763
Families with children:											
Female headed family, no husband present	22.5	13.8	10.2	7.4	7.1	11.9	16.0	11.1	46.5	53.5	7,186
Male present families	3.1	3.0	3.7	4.4	4.5	10.9	23.6	46.9	9.8	90.2	26,168

[1] Based on census ("Orshansky") poverty levels.

Source: March 1985 Current Population Survey (CPS). Table prepared by CRS.

INCOME OF FAMILIES WITH CHILDREN

Table 5 shows the percent of female-headed families with an absent husband which received income from various sources. The table shows that the percentage of female-headed families with earnings (wages, salaries, self-employment and farm income), alimony or child support, interest and dividends, and social security, tends to increase with distance above the poverty threshold. In turn, families below the poverty threshold are more likely to receive public cash assistance, presumably AFDC, and food stamps—a form of near-cash assistance.

Nearly half (46 percent) of all poor female-headed families with children had income from earnings. However, earnings, on average, accounted for about 34 cents of every dollar of income received (table 6). Three out of four poor families between 75 and 100 percent of poverty had income from earnings; for these families, earnings accounted for nearly half (53 percent) of total income. In contrast, 96 percent of nonpoor female-headed families had earnings which accounted for 79 percent of their total income.

TABLE 5.—PERCENT OF FEMALE-HEADED FAMILIES WITH CHILDREN WITH INCOME FROM VARIOUS SOURCES, BY RATIO OF TOTAL INCOME TO POVERTY THRESHOLD,[1] 1984

	Ratio of total income to poverty threshold									
	Under 0.50	0.50 to 0.74	0.75 to 0.99	1.00 to 1.24	1.25 to 1.49	1.50 to 1.99	2.00 to 2.99	3.00 and over	Poor	Nonpoor
Number of families (in thousands)	(1,619)	(990)	(733)	(532)	(507)	(857)	(1,152)	(795)	(3,342)	(3,843)
Earnings	32.7	46.0	75.8	90.1	93.6	95.1	98.3	98.4	46.1	95.9
OASDI, railroad retirement	5.2	14.6	17.3	15.6	14.6	19.3	17.7	21.6	10.6	18.2
Pensions	.7	.2	1.5	2.1	1.6	4.9	5.3	8.3	.7	4.9
Unemployment compensation, workers compensation, veterans payments	2.8	7.7	14.5	11.8	14.6	15.0	11.6	9.4	6.8	12.3
AFDC, SSI, general assistance	67.7	72.2	41.8	26.1	20.3	10.9	4.6	2.5	63.3	10.6
Child support, alimony	15.0	19.0	28.3	40.0	39.0	38.1	49.7	48.3	19.1	44.1
Interest, dividends	9.3	11.6	19.3	28.0	28.9	42.4	59.8	74.5	12.1	50.5
Food Stamps	71.0	74.5	55.7	33.8	20.5	8.1	3.4	1.1	68.7	10.4

---

[1] Based on census ("Orshansky") poverty levels.

Source: March 1985 Current Population Survey (CPS). Table prepared by CRS.

TABLE 6.—PERCENT OF TOTAL FAMILY INCOME FROM VARIOUS SOURCES, BY RATIO OF TOTAL INCOME TO POVERTY THRESHOLD FOR FEMALE-HEADED FAMILIES WITH CHILDREN, 1984 [1]

	Ratio of total income to poverty threshold									
	Under 0.50	0.50 to 0.74	0.75 to 0.99	1.00 to 1.24	1.25 to 1.49	1.50 to 1.99	2.00 to 2.99	3.00 and over	Poor	Nonpoor
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Earnings	19.0	26.5	52.9	68.5	75.4	77.9	81.6	78.7	34.0	78.5
OASDI, railroad retirement	4.6	8.6	9.6	8.3	6.4	7.9	5.0	3.9	7.8	5.5
Pensions	.5	.0	.5	1.0	.5	1.4	.8	2.8	.3	1.6
Unemployment compensation, workers compensation, veterans payments	1.2	2.3	3.5	2.1	2.2	1.9	1.2	.8	2.4	1.3
AFDC, SSI, general assistance	68.1	56.3	25.2	10.6	6.2	2.2	.7	.2	48.3	1.9
Child support, alimony	5.7	5.4	7.4	8.5	8.7	7.2	8.1	6.5	6.2	7.4
Interest, dividends	1.0	.9	.9	.9	.6	1.6	2.6	7.1	.9	3.8
Food stamps [2]	(46.2)	(18.0)	(7.0)	(2.7)	(1.3)	(.4)	(.1)	(.0)	(21.9)	(.4)

[1] Based on census ("Orshansky") poverty levels.

[2] The cash value of food stamps is not included as part of total income, either for purposes of determining poverty status, or in the base for calculating the percentage share of total income. The numbers in this row for food stamps represent the added percentage contribution to total cash income.

Source: March 1985 Current Population Survey (CPS). Table prepared by CRS.

It is interesting to note that nonpoor female-headed families were more than twice as likely as poor families to have received child support or alimony—44 percent compared to about 19 percent. For poor and nonpoor female-headed families alike, child support amounted to about 6 to 7 percent of total income.

Cash public assistance—mostly AFDC—was the major source of income received by the 3.3 million poor female-headed families with children in 1984. Approximately 63 percent of these families received cash public assistance which, on average, accounted for about 48 cents of every dollar received.

Food stamps, although not cash income, were an important source of income to poor female-headed families.[4] Nearly 70 percent received food stamps at some time during the year. For each dollar of cash income received, food stamps, on average, provided an additional 22 cents.

Among male present families (mostly married couple families) with children who were poor, earnings, on average, were the largest component of total income (see tables 7 and 8). Some 78.1 percent of all such families had income from earnings, which accounted for 68 cents of every dollar received. About 18.5 percent of poor families received income from either unemployment compensation, workers' compensation, or veterans' payments, which was about the same as the percentage of nonpoor families receiving income from these sources. These sources accounted for about 6 cents of every dollar received by the poor, and about 1 cent of every dollar received by the nonpoor. In 1983, 23.0 percent of poor families received income from these sources. As table 8 shows, about 27 percent of poor families headed by a male received cash public assistance, which, on average, accounted for 15 cents of each dollar which all poor families received.

---

[4] The cash value of food stamps was not included as part of total income for purposes of either determining poverty status, or in the base for calculating the percentage share of total income.

TABLE 7.—PERCENT OF MALE PRESENT FAMILIES WITH CHILDREN WITH INCOME FROM VARIOUS SOURCES, BY THE RATIO OF TOTAL INCOME TO THE POVERTY THRESHOLD,[1] 1984

	Ratio of total income to poverty threshold									
	Under 0.50	0.50 to 0.74	0.75 to 0.99	1.00 to 1.24	1.25 to 1.49	1.50 to 1.99	2.00 to 2.99	3.00 and over	Poor	Nonpoor
Number of families (in thousands)	799	787	967	1,144	1,168	2,856	6,184	12,263	2,553	23,615
Earnings	61.3	81.8	88.8	95.1	97.5	98.7	99.4	99.8	78.1	99.2
OASDI, railroad retirement	7.5	11.4	12.7	11.1	7.4	7.4	4.8	4.3	10.7	5.3
Pensions	.5	2.0	3.2	2.6	2.9	3.6	3.3	4.7	2.0	4.0
Unemployment compensation, workers compensation, veterans payments	11.3	19.7	23.4	21.7	22.3	23.3	20.0	11.4	18.5	16.1
AFDC, SSI, general assistance	28.0	32.2	22.1	9.7	7.6	4.9	2.1	.6	27.1	2.3
Child support, alimony	8.7	10.2	10.3	9.0	12.6	12.3	12.4	12.7	9.8	12.4
Interest, dividends	22.6	22.3	26.2	33.3	43.9	50.1	64.1	82.9	23.9	69.7
Food stamps	46.7	53.1	36.8	22.4	13.2	5.4	1.8	.2	44.9	3.0

[1] Based on census ("Orshansky") poverty levels.

Source: March 1985 Current Population Survey (CPS). Table prepared by CRS.

TABLE 8.—PERCENT OF TOTAL FAMILY INCOME FROM VARIOUS SOURCES, BY THE RATIO OF TOTAL INCOME TO THE POVERTY THRESHOLD,[1] FOR MALE PRESENT FAMILIES WITH CHILDREN:1984

	Ratio of total income to poverty threshold									
	Under 0.50	0.50 to 0.74	0.75 to 0.99	1.00 to 1.24	1.25 to 1.49	1.50 to 1.99	2.00 to 2.99	3.00 and over	Poor	Nonpoor
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Earnings	56.8	62.0	74.6	84.5	88.6	90.9	93.8	92.7	68.2	92.6
OASDI, railroad retirement	8.2	6.8	6.5	5.3	3.0	2.5	1.1	.5	6.8	.9
Pensions	.3	.8	1.0	.8	1.2	.9	.7	.9	.8	.8
Unemployment compensation, workers compensation, veterans payments	5.5	6.5	6.0	4.1	3.3	2.6	1.6	.5	6.1	1.0
AFDC, SSI, general assistance	25.5	20.0	8.6	3.0	1.4	.7	.2	.0	14.5	.2
Child support, alimony	2.7	2.0	1.8	1.1	1.2	1.0	.8	.7	2.0	.7
Interest, dividends	.9	1.9	1.6	1.2	1.3	1.5	1.8	4.7	1.6	3.8
Food stamps [2]	(30.1)	(11.5)	(4.2)	(1.6)	(.6)	(.2)	(.0)	(.0)	(10.0)	(.1)

[1] Based on census ("Orshansky") poverty levels.

[2] The cash value of food stamps is not included as part of total income, either for purposes of determining poverty status, or in the base for calculating the percentage share of total income. The numbers in this row for food stamps represent the added percentage contribution to total cash income.

Source: March 1985 Current Population Survey (CPS). Table prepared by CRS.

Poor married couple families, and other families with children, were much less likely than female-headed families to have received food stamps. Only about 45 percent of poor married couple families received food stamps, compared to 69 percent of female-headed families.

ANTIPOVERTY EFFECTIVENESS OF VARIOUS CASH AND NEAR-CASH INCOME SOURCES

This section explores the effectiveness of various income sources in addressing poverty. As shown earlier, families differ markedly by the combinations of income upon which they rely for support. The data for aged individuals is analyzed in Appendix B.

One way of assessing the antipoverty effectiveness of various income sources is to estimate the number of persons who would be counted as poor if a particular source of income were not received (table 9). The additional number of persons that are counted as poor provides an estimate of the number of people lifted out of poverty by a particular income source. For example, the effect of social security upon poverty can be seen by comparing the number who would be counted as poor if they did not receive social security, with the number of poor after social security income is counted.

Another way of assessing the effectiveness of various income sources upon poverty is by estimating the degree to which those sources reduce the gap between a poor family's income and the poverty threshold (table 10). This concept is sometimes known as the "poverty gap" or the "poverty income deficit." A cash transfer program which is highly targeted on the poor may do little to eliminate poverty—that is, to reduce the number who are counted as poor—but such a program may still have a very real impact by reducing the degree of poverty as viewed in terms of the poverty gap.

Tables 9 and 10 show the relative antipoverty effect of various income sources in 1984, upon children, nonaged adults, and the total population. Table 9 shows the estimated number of poor persons and the poverty rate which would result under various income definitions. For example, the first column shows the number of persons who were poor, and the poverty rate, in 1984. The second column shows how many persons would be poor if they had only earnings and miscellaneous sources of income (interest, dividends, alimony and child support) upon which to depend. Similarly, the third column shows how many persons would be counted as poor if they had all sources of income currently available to them, except for social security and railroad retirement. The relative effect of each source can be seen by comparing the number in poverty under the alternate income definitions with the first column. For purposes of illustration, the cash value of food stamps is also included even though food stamps are not included as income under the existing official definition of poverty. Table 10 is similar to table 9, except that it shows the aggregate poverty gap (in millions of dollars) and average poverty gap [5] per poor person. The aggre-

---

[5] The average poverty gap per poor person is the total family poverty gap divided by the number of family members. Since poverty is based on a family income definition, completely

Continued

gate poverty gap is the amount of dollars that would be required to give all persons in poverty an income equal to the poverty line.

---

filling the poverty gap for children, for example, would not remove all children from poverty, since the poverty gap for other family members would have to be reduced as well.

TABLE 9.—PERSONS IN POVERTY UNDER VARIOUS INCOME CONCEPTS, BY AGE GROUP: 1984

	Total income official poverty measure	Only earnings, dividends, interest, and miscellaneous income	Total income less				Total income plus food stamps
			Social security, railroad retirement	Pensions	Unemployment compensation, worker's compensation, veterans pension	AFDC, SSI, general assistance	
Total (in thousands)	33,700	56,290	47,224	36,215	35,973	35,702	32,043
Children (less than 18)	13,419	15,443	14,177	13,587	14,018	13,941	12,705
Persons age 18–64	16,952	24,774	20,284	18,349	18,311	17,944	16,184
Total (percent)	14.4	24.1	20.2	15.5	15.4	15.3	13.7
Children (less than 18)	21.5	24.7	22.7	21.8	22.4	22.3	20.3
Persons age 18–64	11.7	17.1	14.0	12.7	12.7	12.4	11.2
Total (percentage reduction in poverty)			−28.6	−6.9	−6.3	−5.6	−4.9
Children (less than 18)			−5.3	−1.2	−4.3	−3.7	−5.3
Persons age 18–64			−16.4	−7.6	−7.4	−5.5	−4.5

Sources: March 1985 Current Population Survey (CPS). Table prepared by CRS.

TABLE 10.—POVERTY GAP UNDER VARIOUS INCOME CONCEPTS, BY AGE GROUP: 1984

	Total income official poverty measure	Only earnings, dividends, interest, and miscellaneous income	Total income less				Total income plus food stamps
			Social security, railroad retirement	Pensions	Unemployment compensation, worker's compensation, veterans pension	AFDC, SSI, general assistance	
Total aggregate poverty gap (in millions)	$46,594	$130,936	$88,151	$51,219	$51,426	$63,557	$39,954
Children (less than 18)	16,077	26,810	18,195	16,339	17,215	22,795	12,757
Persons age 18–64	26,895	55,470	36,208	29,753	30,031	35,034	23,856
Total average gap per poor person [1]	$1,383	$2,326	$1,867	$1,414	$1,430	$1,780	$1,247
Children (less than 18)	1,198	1,736	1,283	1,202	1,228	1,635	1,004
Persons age 18–64	1,587	2,239	1,785	1,622	1,640	1,952	1,474
Total percentage reduction in aggregate gap			−47.1	−9.0	−9.4	−26.7	−14.3
Children (less than 18)			−11.6	−1.6	−6.6	−29.5	−20.7
Persons age 18–64			−25.7	−9.6	−10.4	−23.2	−11.3

[1] The average poverty gap per poor person is the total family poverty gap divided by the number of family members. Since poverty is based on a family income definition, completely filing the gap for children, for example, would not remove all children from poverty, since the poverty gap for other family members would have to be reduced as well.

Source: March 1985 Current Populution Survey (CPS). Table prepared by CRS.

Tables 11–13 examine the antipoverty effectiveness of cash and noncash transfers from 1979 to 1984. These tables were prepared by the Congressional Budget Office using Census Bureau data. Table 11 presents information on all individuals; table 12 presents data for individuals living in families and unrelated subfamilies with related children under 18, and table 13 presents data for individuals living in families with an unmarried head with related children under 18.

All statistics are based on Current Population Survey (CPS) data for the relevant year, unadjusted for possible underreporting. Asset income data have been adjusted for 1979 through 1983, however, to make them comparable to 1984 data. This adjustment involved applying a more detailed methodology to impute asset income to people who reported receiving asset income but did not report the amount received. The effect of the changes is to increase incomes, particularly for the elderly. For the entire population, the poverty rate is reduced by about 0.1 percentage point in each year, 1979–1983. It was not possible, however, to adjust the data from earlier years to reflect the other change made in 1984, the revised weighting of persons of Spanish origin.

Federal personal income taxes and Social Security payroll taxes were estimated with a microsimulation model using tax schedules and laws in effect in each year. In order to make taxes consistent with the incomes reported on the CPS, no adjustments were made for CPS underreporting and taxes were not estimated for capital gains or other taxable income not reported in the CPS. Statistics of Income (SOI) data were used to assign itemized deductions and Individual Retirement Account (IRA) contributions to tax filing units, while child care expenses were estimated based on data from the 1979 Panel Study of Income Dynamics (PSID). Payroll tax estimates were based on self-employment income and wages and salaries of all workers except Federal, railroad, and some state employees.

All valuations of in-kind transfers are those estimated by the Bureau of the Census using a *market value* valuation technique.[6] The market value generally attempts to measure the private market cost of benefits provided in kind. Food stamps are assigned their value, while school lunches are assigned the average amount of Federal subsidy per child. Housing assistance is valued as the differece between the estimated market rent (based on the American Housing Survey) and the reduced rent paid by subsidized households.

Poverty under five different income concepts was measured. "Before transfers" is all cash income prior to any benefits from government programs. This would include all earnings, pension, income from savings, self-employment income, etc. "Plus social insurance" adds to income all benefits from social insurance programs such as social security, workers' compensation, and unemployment compensation. "Plus M–T Cash transfers" adds to income all means-tested transfer income such as aid to families with dependent children, supplemental security income, and general assistance. "Plus food and housing" adds to income all means-tested in-kind transfer received for food and housing. This would include food stamps, housing programs and school lunch programs. Benefits are valued using the *market value* method. "Less Federal taxes" subtracts from income Federal income and the employee portion of Federal payroll taxes.

---

[6] See Bureau of the Census, "Alternative Methods for Valuing Selected In-Kind Transfer Benefits and Measuring Their Effect on Poverty," Technical Paper 50, March 1982, for a discussion of the estimation methods. Technical papers 51, 52, and 55 provide data for all years from 1979 through 1984.

Table 11 shows that before any governmental transfers, 41.7 million individuals would have been poor. With social insurance benefits, 27.8 million individuals are poor; a reduction of 13.8 million. Means-tested cash and in-kind transfers reduces the poverty count by an additional 7.1 million individuals.

In 1979, 22.4 percent of individuals were removed from poverty due to means-tested transfers and Federal tax policy. In 1983, this had declined to 8.1 percent. In 1984, the downward trend reversed itself and the percentage increased to 8.9 percent.

If governmental policy had remained as effective (in percentage terms) in removing individuals from poverty in 1984 as it had in 1979, some 4.8 million fewer individuals would be living in poverty. This is calculated as 35.7 million (the number poor before means-tested transfers) times 0.776 (the number remaining poor in 1979 after means-tested transfers and Federal tax policy) and comparing this result to the actual number of poor in 1984 after means-tested transfers and Federal tax policy.

Tables 12 and 13 illustrate similiar trends for families with children. Table 13 shows that in 1979, approximately 33 percent of individuals in single parent families were removed from poverty as the result of means-testd transfers and Federal tax policy. By 1984, this had declined to 16 percent. Similarly, the percentage reduction in the poverty gap had declined from 65 percent to 58 percent. This percentage decline in the poverty gap implies a loss of income to these families of approximately $1.7 billion.

The last two rows of tables 11–13 show the poverty rate for individuals. The row labeled "Plus Social Insurance" is the poverty rate with private cash income plus income from social insurance programs. The last row in the tables is the poverty rate which includes all cash income plus in-kind (food and housing) benefits less federal taxes. Subtracting these rows from one another shows the impact of means-tested transfers and federal tax policy. For example, table 11 illustrates that this policy reduced the poverty rate by 2.9 percentage points in 1979 as compared to 1.4 percentage points in 1984. Similarly, table 13 shows that the poverty rate for individuals in female-headed families was reduced by 15.0 percentage points in 1979 compared to 7.8 percentage points in 1984 due to means tested transfers and federal income tax and payroll taxes.

TABLE 11.—ANTIPOVERTY EFFECTIVENESS OF CASH AND NONCASH TRANSFERS (INCLUDING FEDERAL INCOME AND PAYROLL TAXES) FOR ALL FAMILIES AND INDIVIDUALS, 1979–84

	1979	1980	1981	1982	1983	1984
Number of poor individuals (thousands):						
Before transfers	41,695	46,273	49,184	51,942	52,700	50,943
Plus social insurance	27,846	31,638	33,909	36,204	36,928	35,702
Plus means-tested cash transfers	25,201	29,114	31,567	34,200	35,030	33,700
Plus food and housing	20,931	24,882	27,703	30,493	31,697	30,103
Less Federal taxes	21,606	26,030	29,983	32,549	33,923	32,529
Number of individuals removed from poverty due to (thousands):						
Social insurance	13,849	14,635	15,275	15,738	15,772	15,241
Means-tested cash, food, and housing benefits	6,915	6,756	6,206	5,711	5,231	5,599
Added due to Federal taxes	675	1,148	2,280	2,056	2,226	2,426
Percent of individuals removed from poverty due to means-tested transfers and Federal tax policy	22.4	17.7	11.6	10.1	8.1	8.9
Poverty gap (millions of 1984 dollars):						
Before transfers	91,699	102,066	108,121	112,993	115,881	112,037
Plus social insurance	47,444	53,403	58,308	62,621	65,321	63,140
Plus means-tested cash transfers	32,903	37,873	42,781	46,900	48,677	46,337
Plus food and housing	25,765	29,481	34,238	37,206	38,781	36,597
Less Federal taxes	26,179	30,127	35,420	38,516	40,225	38,176
Percentage reduction in poverty gap due to means-tested transfers and Federal tax policy	44.8	43.6	39.3	38.5	38.4	39.5
Poverty rate (in percent):						
Plus social insurance	12.8	14.1	14.9	15.8	15.9	15.3
Less Federal taxes	9.9	11.6	13.2	14.2	14.6	13.9

Source: Congressional Budget Office and Committee staff.

TABLE 12.—ANTIPOVERTY EFFECTIVENESS OF CASH AND NONCASH TRANSFERS (INCLUDING FEDERAL INCOME AND PAYROLL TAXES) FOR ALL FAMILIES WITH RELATED KIDS LESS THAN 18, 1979–84

	1979	1980	1981	1982	1983	1984
Number of poor individuals (thousands):						
Before transfers	21,510	24,795	26,446	28,759	28,935	27,277
Plus social insurance	18,599	21,544	23,111	25,036	25,255	24,408
Plus means-tested cash transfers	16,808	19,902	21,553	23,796	24,246	23,301
Plus food and housing	13,261	16,463	18,465	20,903	21,736	20,616
Less Federal taxes	13,638	17,270	20,159	22,503	23,420	22,405
Number of individuals removed from poverty due to (thousands):						
Social Insurance	2,911	3,251	3,335	3,723	3,680	2,869
Means-tested cash, food, and housing benefits	5,338	5,081	4,646	4,133	3,519	3,792
Added due to Federal taxes	377	807	1,694	1,600	1,684	1,789
Percent of individuals removed from poverty due to means-tested transfers and Federal tax policy	26.7	19.8	12.8	10.1	7.3	8.2
Poverty gap (millions of 1984 dollars):						
Before transfers	34,728	40,346	42,725	47,064	48,270	45,370
Plus social insurance	27,896	32,413	34,622	38,619	39,463	38,170
Plus means-tested cash transfers	17,932	21,513	23,880	27,557	27,993	26,830
Plus food and housing	12,078	14,584	16,950	19,474	19,756	18,805
Less Federal taxes	12,072	14,714	17,438	20,075	20,440	19,567
Percentage reduction in poverty gap due to means-tested transfers and Federal tax policy	56.7	54.6	49.6	48.0	48.2	48.7
Poverty rate (in percent):						
Plus social insurance	14.3	16.1	17.4	18.9	19.2	18.5
Less Federal taxes	10.5	12.9	15.2	17.0	17.8	17.0

Source: Congressional Budget Office and Committee staff.

TABLE 13.—ANTIPOVERTY EFFECTIVENESS OF CASH AND NONCASH TRANSFERS (INCLUDING FEDERAL INCOME AND PAYROLL TAXES) FOR ALL UNITS WITH UNMARRIED HEAD AND RELATED KIDS LESS THAN 18, 1979–84

	1979	1980	1981	1982	1983	1984
Number of poor individuals (thousands):						
Before transfers	11,480	12,458	12,915	13,594	13,751	13,774
Plus means-tested cash transfers	10,367	11,201	11,858	12,579	12,611	12,786
Plus M–T cash transfers	9,230	10,362	10,987	11,903	12,063	12,132
Plus food and housing	6,901	8,363	9,191	10,312	10,531	10,473
Less Federal taxes	6,925	8,433	9,423	10,611	10,800	10,695
Number of individuals removed from poverty due to (thousands):						
Social insurance	1,113	1,257	1,057	1,015	1,140	988
Means-tested cash, food, and housing benefits	3,466	2,838	2,667	2,267	2,080	2,313
Added due to Federal taxes	24	70	232	299	269	222
Percent of individuals removed from poverty due to means-tested transfers and Federal tax policy	33.2	24.7	20.5	15.7	14.4	16.4
Poverty gap (millions of 1984 dollars):						
Before transfers	22,341	24,688	25,925	27,847	28,823	28,056
Plus social insurance	19,160	21,041	22,548	24,322	25,020	24,733
Plus means-tested cash transfers	10,986	12,607	14,127	15,828	16,438	16,076
Plus food and housing	6,809	7,687	9,108	10,126	10,683	10,371
Less Federal taxes	6,760	7,667	9,151	10,203	10,751	10,462
Percentage reduction in poverty gap due to means-tested transfers and Federal tax policy	64.7	63.6	59.4	58.1	57.0	57.7
Poverty rate (in percent):						
Plus social insurance	45.1	46.4	47.8	50.4	49.3	47.8
Less Federal taxes	30.1	35.0	38.0	42.5	42.2	40.0

Source: Congressional Budget Office and Committee staff.

POVERTY GAP DATA OVER TIME

Table 14 illustrates the aggregate poverty gap in current and constant 1983 dollars for selected years by family type. The total gap increased from $14.7 billion in 1975 to $46.6 billion in 1984. In constant dollars, this was an increase from $28.4 billion to $46.6 billion; an increase of 64 percent. The largest increase in percentage terms was for female head of families. The poverty gap increased from $8.4 billion to $15.5 billion in constant 1984 dollars; an increase of over 85 percent.

TABLE 14.—AGGREGATE POVERTY GAP IN CURRENT AND CONSTANT 1984 DOLLARS FOR SELECTED YEARS, BY FAMILY TYPE [1]

[In millions of dollars]

Family type	1975	1979	1980	1981	1982	1983	1984
	Current dollars						
Total	14,719	24,033	31,075	37,617	43,826	47,082	46,594
Total in families	9,505	14,708	19,771	24,653	30,180	31,833	31,567
No family members age 65 or over	8,660	13,182	17,910	22,554	27,707	29,114	29,308
Female headed families [2]	4,341	7,260	9,389	12,000	14,044	15,127	15,527
Male present families	4,320	5,921	8,521	10,553	13,664	13,987	13,781
Any family member age 65 or over	845	1,526	1,861	2,099	2,473	2,719	2,259
Total unrelated individuals	5,214	9,325	11,304	12,964	13,646	15,249	15,027
Less than 65	3,931	7,194	8,912	10,210	10,693	12,437	12,457
65 and over	1,283	2,131	2,392	2,754	2,954	2,812	2,570

TABLE 14.—AGGREGATE POVERTY GAP IN CURRENT AND CONSTANT 1984 DOLLARS FOR SELECTED YEARS, BY FAMILY TYPE [1]—Continued

[In millions of dollars]

Family type	1975	1979	1980	1981	1982	1983	1984
	Constant 1984 dollars [3]						
Total	28,410	34,384	39,164	42,955	47,155	49,087	46,594
Total in families	18,346	21,043	24,917	28,151	32,472	33,188	31,567
No family members age 65 or over	16,715	18,860	22,572	25,755	29,812	30,354	29,308
Female headed families [2]	8,379	10,387	11,833	13,703	15,111	15,771	15,527
Male present families	8,338	8,471	10,739	12,051	14,702	14,583	13,781
Any family member age 65 or over	1,631	2,183	2,345	2,397	2,661	2,835	2,259
Total unrelated individuals	10,064	13,341	14,246	14,804	14,683	15,898	15,027
Less than 65	7,588	10,293	11,232	11,659	11,505	12,967	12,457
65 and over	2,476	3,049	3,015	3,145	3,178	2,932	2,570

---

[1] The poverty gap is the difference between a poor family's income and the Census Bureau's poverty threshold. The poverty gap shown in this table is slightly higher than that reported by the Census Bureau due to unrelated subfamilies being counted as families.

[2] Female headed families with an absent husband.

[3] Earlier year data converted to constant 1984 dollars by the CPI-U price index.

Note: Table prepared by the Congressional Research Service from the March 1985 through 1980 March Current Population Surveys, and the 1976 Survey of Income and Education (SIE).

FEDERAL TAX TREATMENT OF FAMILIES NEAR POVERTY

Through the 1960's and 1970's Congress attempted, in several tax reduction bills, to eliminate the tax burden on families whose incomes were below the poverty line. The legislative history of the tax cut bills enacted in 1969, 1975, 1976, 1977, and 1978 indicates a congressional desire to increase the level of income at which a family begins to pay income tax (termed the tax threshold or, alternatively, the tax entry point) above the poverty level. Several tools have been used to achieve this goal: the personal exemption, the standard deduction (now termed the zero bracket amount) and the earned income tax credit.

In the past few years, however, these provisions have not kept pace with inflation, and as a result the income tax threshold has fallen well below the poverty line. In 1985 this trend will be modestly reversed because starting in this year the zero brack amount and personal exemptions are indexed for inflation, and the earned income credit is expanded. However, after 1985 the shortfall will start to grow again for some families because the earned income tax credit is not indexed.

Table 15 shows the income tax threshold and the poverty line for a family of four for selected years between 1959 and 1985. In 1960, the tax threshold was 10.3 percent below the poverty line. As a result of the 1964 tax cuts, the gap between the two was cut to 6.9 percent by 1965. By 1969, inflation had increased the gap to 19.9 percent, and Congress responded by tax reductions in 1969 and 1971 which succeeded in eliminating the gap in 1972. The rapid inflation of 1973-74 caused the gap to reemerge, and in 1975 the tax cuts were so structured that the tax threshold was raised 21.7 percent above the poverty line. The earned income tax credit, enacted that year, was designed not only to remove poor people from the income tax rolls but also, through its refundable feature, to offset some of the impact of the social security payroll tax on their earnings. However, as a result of inflation in subsequent years, the tax threshold dropped to 11.5 percent below the proverty level in 1982, 13.6 percent below in 1983, and 17.2 percent below in 1984. It is estimated that in 1987 and 1988, the gap (under present law provisions) will increase to 18.8 percent and 20.7 percent, respectively, the largest gap since before 1960. For 1986, it is estimated that the proverty level for a family of four will be $11,502, but (under present law) the family will have to pay income tax beginning at $9,573. This shortfall is estimated to continue to grow for some families notwithstanding the impact of indexing of personal exemptions and the zero bracket amount, which took effect in 1985, since the earned income credit is not indexed.

TABLE 15.—RELATIONSHIP BETWEEN INCOME TAX THRESHOLD AND POVERTY LEVEL FOR A FAMILY OF FOUR, 1959–1988

Year	Income tax threshold	Poverty level	Percentage by which tax threshold falls below (exceeds) poverty level
1959	$2,667	$2,973	10.3
1960	2,667	3,022	11.7
1965	3,000	3,223	6.9
1966	3,000	3,317	9.6
1968	3,000	3,553	15.6
1969	3,000	3,743	19.9
1970	3,600	3,968	9.3
1971	3,750	4,137	9.4
1972	4,300	4,275	(0.6)
1973	4,300	4,540	5.3
1974	4,300	5,038	14.6
1975	6,692	5,500	(21.7)
1976	6,892	5,815	(18.5)
1977	7,533	6,191	(22.0)
1978	7,533	6,662	(13.1)
1979	8,626	7,412	(16.4)
1980	8,626	8,414	(2.5)
1981	8,634	9,287	7.0
1982	8,727	9,862	11.5
1983	8,783	10,178	13.7
1984	8,783	[1] 10,610	[1] 17.2
1985	9,437	[1] 11,003	[1] 14.2
1986 (present law)	[1] 9,573	[1] 11,502	[1] 16.8
1987 (present law)	[1] 9,739	[1] 11,990	[1] 18.8
1988 (present law)	[1] 9,909	[1] 12,491	[1] 20.7

[1] Estimated.

Note: Tax thresholds assume full use of the earned income tax credit. They are based on the schedule for a married couple filing jointly, and do not assume eligibility for elderly exemption.

Amount of tax paid at poverty level

Table 16 shows the income tax threshold and the poverty level for various family sizes for 1978 and the years 1982 through 1986. Poverty levels for 1985 are based on assumptions about the rate of inflation in that year.

In 1978, the poverty level exceeded the income tax threshold only for single persons, and the maximum income tax paid by a poor single person was only $16. For three- and four-person families at the poverty line, the earned income credit offset a substantial part of the payroll tax.

In 1983, the income tax threshold exceeds the poverty level only for three-person families. For four-person families the shortfall of the tax threshold below the poverty level is $1,383, and for six-person families it is $3,901. In 1985, even after the expansion of the earned income credit and indexation, the tax threshold is above the poverty line only for three-person families. For four-person families the tax threshold is $1,566 below the poverty line, and for six-person families, $4,310 below the poverty line. Even after indexing takes effect, the gap between the tax threshold and the poverty line will grow faster than the rate of inflation for these families. This will happen because a taxpayer at the tax threshold is still eligible for the earned income credit and will be affected by the failure to index that credit.

Table 14 also shows the amount of income tax and payroll tax that is paid by someone whose income equals the poverty line and whose income is fully subject to tax. While many poor people do receive cash transfer payments that are tax-exempt and, therefore, would not be subject to the tax burdens shown in table 14, there are many poor people who must rely on their earnings and for whom these tax burdens can result under present law. By 1985, a four-person family whose income is at the poverty line can pay as much as $375 in income tax, and a six-person family as much as $585. The table also shows the payroll taxes paid by an earner whose earnings are at the poverty line. In 1975, Congress hoped to eliminate some of this burden by the refundable earned income credit, but since then inflation has raised tax liabilities and the poverty level so that the credit, which before 1985 does not apply to families with incomes above $10,000, does not give any benefit to a significant number of poor families. For years starting in 1985 the income ceiling on eligibility for the earned income credit was raised to $11,000 and the maximum credit was raised from $500 to $550. However, in real terms the income ceiling and the value of the credit remain below their 1982 level. Because they are not indexed, their real value after 1985 will continue to decline as prices increase. The table also shows the combined income and payroll tax burden at the poverty line as a percent of income. For 1985 and 1986, the table indicates that this burden could be as high as 11 percent of income.

TABLE 16.—TAX THRESHOLDS, POVERTY LEVELS, AND FEDERAL TAX AMOUNTS FOR DIFFERENT FAMILY SIZES WITH EARNINGS EQUAL TO THE POVERTY LEVEL, 1978–1986

	Family size					
	1	2	3	4	5	6
Poverty level:						
1978	3,311	4,249	5,201	6,662	7,880	8,891
1982	4,900	6,280	7,690	9,860	11,680	13,210
1983	5,061	6,483	7,938	10,178	12,049	13,630
1984 [1]	5,277	6,759	8,276	10,612	12,562	14,211
1985 [1]	5,471	7,009	8,582	11,003	13,026	14,735
1986 [1]	5,719	7,326	8,971	11,502	13,617	15,403
Income tax threshold:						
1978	$3,200	$5,200	$6,930	$7,520	$8,183	$9,167
1982	3,300	5,400	8,237	8,727	9,216	9,706
1983–84	3,300	5,400	8,315	8,783	9,251	9,719
1985	3,430	5,620	8,944	9,437	9,930	10,422
1986	3,560	5,830	9,062	9,573	10,085	10,596

TABLE 16.—TAX THRESHOLDS, POVERTY LEVELS, AND FEDERAL TAX AMOUNTS FOR DIFFERENT FAMILY SIZES WITH EARNINGS EQUAL TO THE POVERTY LEVEL, 1978–1986—Continued

	Family size					
	1	2	3	4	5	6
Income tax at poverty level:						
1978	16	0	−280	−134	−12	0
1982	202	106	−134	285	417	491
1983	209	118	−89	319	432	509
1984	226	149	−9	364	478	569
1985	233	153	−84	375	493	585
1986	246	165	−21	398	523	622
Payroll tax at poverty level:						
1978	200	257	315	403	477	538
1982	328	421	515	661	783	885
1983	339	435	532	682	808	913
1984 [2]	354	453	555	711	842	953
1985	386	494	605	776	918	1,039
1986	409	524	641	822	974	1,101
Combined income and payroll tax at poverty level:						
1978	216	257	35	269	465	538
1982	530	527	381	946	1,200	1,376
1983	546	554	443	1,001	1,240	1,422
1984	580	602	546	1,075	1,320	1,521
1985	619	647	521	1,150	1,410	1,622
1986	655	689	620	1,221	1,497	1,723
Combined tax as percent of income at poverty level:						
1978	6.5	6.1	0.7	4.0	5.9	6.1
1982	10.8	8.4	5.0	9.6	10.3	10.4
1983	10.8	8.6	5.6	9.8	10.3	10.4
1984	11.0	8.9	6.5	10.1	10.5	10.7
1985	11.3	9.2	6.1	10.5	10.8	11.1
1986	11.5	9.4	6.9	10.6	11.0	11.2

---

[1] Projected thresholds.

[2] Effective payroll tax calculated as 6.7 percent for 1984 because in this year employees are allowed a payroll tax credit equal to 0.3 percent of taxable wages.

Note: Estimated for 1984, 1985, and 1986 (under present law). The table reflects assumptions that all family income consists of wages or salaries, that families of two or more incude a married couple (rather than an unmarried head of household with one or more dependents), that all family members are under age 65, and that families of three or more persons are eligible for the earned income credit. For families of three or more, the effect of the earned income credit is included. Negative figures in the table reflect refundability of earned income credit.

Combined Impact of AFDC, Food Stamps, and Federal Tax Policy Upon Female-Headed Families: 1960 to 1984

This section briefly examines the combined impact of AFDC, food stamps and Federal tax policy upon female-headed families by

State. The analysis calculates AFDC, food stamps, and Federal taxes (income plus payroll) for single parents with two or three children with different earnings in each State (except Alaska and Hawaii). To make comparisons across time, wages are expressed as a given percentage (0, 50, 75, 100, or 125) of the poverty thresholds. At the conclusion of this section is a complete description of the methodology.

Table 17 presents the combined AFDC and food stamp benefit level for a family of four with no income from 1960 to 1984 (in constant 1984 dollars). Over the entire 24-year period, the weighted average of total benefits (weighted across States by the 1980 State population) grew only 3.6 percent, from $6,715 in 1960 to $6,955 in 1984. While AFDC benefits declined slightly from 1960 to 1964 (a 1.6 percent decline), AFDC grew 8 percent in real terms from 1964 to 1968. Between 1968 and 1984, AFDC benefits declined by 33 percent in real terms. However, on average with the availability of food stamps, total benefits increased from 1964 to 1972, declined slightly from 1972 to 1976, dropped significantly from 1976 to 1980 (14.4 percent) and lost another 7 percent between 1980 and 1984.

Creation of the food stamp program in the late 1960's produced an increase in benefits in some States, especially in the south. The benefit level in several States (Alabama, Arkansas, Delaware, Florida, Maine, Mississippi, South Carolina) increased by over 50 percent from 1960 to 1984. In 22 States, total benefits (AFDC only in 1960 and food stamps plus AFDC in 1984) declined from 1960 to 1984. In 12 of these States (Idaho, Illinois, Massachusetts, Montana, New Jersey, New Mexico, New York, North and South Dakota, Ohio, Washington and Wyoming), the decline was over 10 percent. Since 1972, AFDC and food stamp benefit levels for a family of four with no income has declined by about 22 percent on average.

TABLE 17.—COMBINED AFDC AND FOOD STAMP BENEFIT LEVELS FOR A FAMILY OF FOUR WITH NO INCOME

	1984 constant dollars							Percent change	Percent change
	1960	1964	1968	1972	1976	1980	1984	1960 to 1984	1972 to 1984
Alabama	2,317	2,702	3,189	5,983	6,262	5,275	4,800	107.1	−19.8
Arizona	5,646	5,384	4,802	7,782	7,218	6,292	5,950	5.4	−23.5
Arkansas	2,781	2,853	3,225	6,275	6,339	5,699	5,186	86.5	−17.4
California	9,058	8,638	7,919	9,798	10,002	9,671	9,125	0.7	−6.9
Colorado	6,867	5,690	6,629	9,006	8,423	7,425	6,481	−5.6	−28.0
Connecticut	9,269	9,241	11,001	11,008	10,400	8,760	8,924	−3.7	−18.9
Delaware	4,171	5,986	6,701	7,130	8,592	7,012	6,404	53.5	−10.2
District of Columbia	6,994	6,669	6,594	8,944	9,005	7,404	6,656	−4.8	−25.6
Florida	3,286	3,134	3,046	6,963	6,798	6,144	5,875	78.8	−15.6
Georgia	4,592	4,379	4,479	7,067	6,461	5,752	6,059	31.9	−14.3
Idaho	8,805	8,080	8,529	9,840	9,465	7,595	6,471	−26.5	−34.2
Illinois	8,131	7,528	9,998	9,632	9,051	7,415	6,673	−17.9	−30.7
Indiana	4,634	4,419	5,375	8,235	8,025	7,044	6,236	34.6	−24.3
Iowa	7,289	7,645	8,744	9,027	9,649	8,145	7,101	−2.6	−21.3
Kansas	7,710	7,436	8,493	10,674	9,772	7,838	7,126	−7.6	−33.2
Kentucky	5,309	5,490	6,701	7,526	7,795	6,197	5,648	6.4	−25.0
Louisiana	4,550	4,339	4,157	6,213	6,615	5,963	5,547	21.9	−10.7
Maine	4,634	4,982	4,909	7,463	8,454	7,436	7,378	59.2	−1.1
Maryland	6,362	6,730	6,379	8,131	7,902	7,160	6,920	8.8	−14.9
Massachusetts	9,227	8,887	10,320	11,237	10,094	8,145	7,471	−19.0	−33.5

TABLE 17.—COMBINED AFDC AND FOOD STAMP BENEFIT LEVELS FOR A FAMILY OF FOUR WITH NO INCOME—Continued

	1984 constant dollars							Percent change	Percent change
	1960	1964	1968	1972	1976	1980	1984	1960 to 1984	1972 to 1984
Michigan (Wayne)	5,898	6,428	8,815	11,487	10,370	9,014	7,286	23.5	−36.6
Minnesota	8,510	8,127	9,532	11,028	10,094	8,855	8,714	2.4	−21.0
Mississippi	2,107	2,009	1,971	5,123	4,948	4,978	4,476	112.5	−12.6
Missouri	4,634	4,419	4,443	6,671	6,798	6,779	6,169	33.1	−7.5
Montana	8,595	8,708	8,027	8,256	8,055	7,213	7,151	−16.8	−13.4
Nebraska	5,477	5,223	7,167	8,673	8,699	7,626	7,109	29.8	−18.0
Nevada	4,466	4,821	5,662	7,630	8,009	7,033	5,866	31.4	−23.1
New Hampshire	7,499	7,352	9,102	10,090	9,496	7,859	7,185	−4.2	−28.8
New Jersey	9,732	9,875	11,897	10,716	9,649	8,093	7,303	−25.0	−31.9
New Mexico	7,836	7,462	6,558	7,685	7,343	6,535	6,211	−20.7	−19.2
New York (NYC)	9,564	10,271	9,962	10,486	11,488	8,749	8,476	−11.4	−19.2
North Carolina	5,603	6,117	5,160	7,276	7,258	5,932	5,438	−3.0	−25.3
North Dakota	8,595	9,361	8,994	10,215	9,864	8,029	7,252	−15.6	−29.0
Ohio	7,752	5,725	6,916	8,131	8,086	7,171	6,463	−16.6	−20.5
Oklahoma	6,530	6,549	6,271	7,901	8,546	7,404	6,513	−0.3	−17.6
Oregon	8,258	7,442	8,099	9,527	10,829	8,379	7,756	−6.1	−18.6
Pennsylavnia	6,235	6,565	7,633	10,486	9,910	7,743	7,067	13.3	−32.6
Rhode Island	6,909	6,732	9,532	9,444	9,695	7,828	8,473	22.6	−10.3
South Carolina	2,654	2,893	3,333	6,129	5,986	5,381	5,312	100.1	−13.3
South Dakota	7,752	7,248	8,206	9,903	9,297	7,531	6,698	−13.6	−32.4

Tennessee	3,370	4,018	4,300	6,713	6,216	5,275	4,993	48.1	−25.6
Texas	3,708	3,937	4,085	7,047	6,339	5,190	5,077	36.9	−28.0
Utah	7,120	7,071	6,629	8,860	9,297	8,251	7,151	0.4	−19.3
Vermont	5,898	5,625	8,923	10,945	10,002	9,554	8,806	49.3	−19.5
Virginia	6,235	6,529	6,844	9,402	8,959	6,938	6,765	8.5	−28.0
Washington	10,027	8,425	9,604	10,090	10,094	9,385	8,434	−15.9	−16.4
West Virginia	4,634	4,916	5,769	7,005	8,009	6,345	5,673	22.4	−19.0
Wisconsin	9,522	9,070	8,564	10,257	10,691	9,311	8,924	−6.3	−13.0
Wyoming	8,216	8,035	7,167	8,693	8,331	7,309	6,185	−24.7	−28.9
Average	6,428	6,350	6,946	8,649	8,544	7,307	6,754	5.1	−21.9
Weighted average	6,715	6,604	7,129	8,894	8,743	7,486	6,955	3.6	−21.8

Note: For 1960, 1964, and 1968 this is only AFDC benefits. While some families may have received food stamps, the program was only operational in one-third of the counties. Only 2.2. million individuals participated in the food stamp program during fiscal year 1968.

Table 18 shows average disposable income of a mother and three children (without day care) between 1972 and 1984 with wages equal to between 0 and 125 percent of the poverty level. It shows that families earning 50 percent of the poverty level experienced a 28.5 percent decline in disposable income between 1972 and 1984. The decline for families earning 75 percent of the poverty level was 26.4 percent. The decline in disposable income is in part due to the loss of AFDC as an income supplement to wages. In 1972, 49 States paid AFDC benefits to a family with wages equal to 50 percent of the poverty threshold; by 1984 only 20 States paid AFDC to such a family. Table 19 illustrates the composition of total income for a mother and three children for 1972, 1976, 1980, and 1984. In 1972, mothers earning poverty level wages would have their incomes increased by $2,751. In 1984, a similar family would have their incomes reduced by $238. This is because Federal taxes are larger than food stamp benefits.

Tables 20 and 21 are analogous tables for a mother with two children.

The averages in tables 17-21 are weighted across States by the 1980 State population. The maximum number of States is 49 since Alaska and Hawaii have been excluded from the analysis.

TABLE 18.—COMPARISON OF THE AVERAGE AMOUNT OF DISPOSABLE INCOME AND AS A PERCENTAGE OF THE POVERTY THRESHOLD AMONG STATES FOR A MOTHER WITH THREE CHILDREN WITHOUT DAY CARE EXPENSES WITH DIFFERENT WAGE AMOUNTS: 1972, 1976, 1980, AND 1984

	Wages (as a percent of poverty threshold)				
	0	50	75	100	125
1984 dollar equivalent	0	5,305	7,958	10,610	13,263
Average disposable income:					
1972 (1984 dollar equivalent)	8,894	11,546	12,468	13,361	14,310
1976 (1984 dollar equivalent)	8,743	11,508	12,507	13,053	13,690
1980 (1984 dollar equivalent)	7,486	10,095	11,150	11,691	12,503
1984	6,955	8,250	9,179	10,372	11,484
Percentage change: 1972–1984	−21.8	−28.5	−26.4	−22.4	−19.7
Disposable income as a percentage of poverty thresholds:					
1972	83.8	109.0	117.5	126.0	135.0
1976	82.4	108.5	117.9	123.0	129.0
1980	70.6	95.1	105.1	110.9	118.0
1984	65.6	78.0	86.5	97.8	108.2
Number of States which supplement wages with AFDC:					
1972	NA	49	47	44	36
1976	NA	49	46	41	28
1980	NA	46	36	27	13
1984	NA	20	5	0	0
Number of States with disposable income above poverty:					
1972	7	30	43	49	49
1976	3	35	45	49	49
1980	0	13	31	49	49
1984	0	0	0	0	49

NA: Not applicable.

Note: Weighted average across States. Disposable income is wages plus AFDC plus food stamps less Federal taxes.

TABLE 19.—COMPARISON OF THE TOTAL INCOME FOR A MOTHER WITH THREE CHILDREN WITH DIFFERENT WAGE AMOUNTS: 1972, 1976, 1980, AND 1984

	Wages (as a percent of poverty threshold)				
	0	50	75	100	125
1972 (in 1984 dollars):					
Wages	0	5,305	7,958	10,610	13,263
AFDC	7,048	5,576	4,284	2,907	1,914
Food stamps	1,846	941	641	396	181
Federal taxes	0	−276	−415	−552	−1,048
Total income	8,894	11,546	12,468	13,361	14,310
1976 (in 1984 dollars):					
Wages	0	5,305	7,958	10,610	13,263
AFDC	6,503	4,470	3,143	2,080	1,282
Food stamps	2,240	1,513	1,208	874	520
Federal taxes	0	220	198	−511	−1,375
Total income	8,743	11,508	12,507	13,053	13,690
1980 (in 1984 dollars):					
Wages	0	5,305	7,958	10,610	13,263
AFDC	5,398	3,073	1,862	1,026	487
Food stamps	2,088	1,512	1,239	829	365
Federal taxes	0	205	91	−774	−1,612
Total income	7,486	10,095	11,150	11,691	12,503
1984:					
Wages	0	5,305	7,958	10,610	13,263
AFDC	4,789	726	83	0	0
Food stamps	2,166	2,075	1,599	971	0
Federal taxes	0	144	−461	−1,209	−1,779
Total income	6,955	8,250	9,179	10,372	11,484

Note: Weighted average across States. If taxes are positive, this means the family received a refundable earned income tax credit. A minus sign coincides with the normal definition of taxes. Federal taxes includes both income and payroll taxes.

TABLE 20.—COMPARISON IN CONSTANT 1984 DOLLARS OF AFDC, FOOD STAMPS, FEDERAL TAXES AND TOTAL INCOME FOR A MOTHER WITH TWO CHILDREN WITHOUT DAY CARE EXPENSES WITH DIFFERENT WAGE AMOUNTS, 1976, 1980, AND 1984

	Wages (as a percent of poverty threshold)				
	0	50	75	100	125
1976 (1984 dollars):					
Wages	0	4,144	6,215	8,287	10,359
AFDC	5,452	3,980	3,004	2,005	1,298
Food stamps	1,768	1,166	937	681	408
Federal taxes	0	172	257	146	−453

TABLE 20.—COMPARISON IN CONSTANT 1984 DOLLARS OF AFDC, FOOD STAMPS, FEDERAL TAXES AND TOTAL INCOME FOR A MOTHER WITH TWO CHILDREN WITHOUT DAY CARE EXPENSES WITH DIFFERENT WAGE AMOUNTS, 1976, 1980, AND 1984—Continued

	Wages (as a percent of poverty threshold)				
	0	50	75	100	125
Total income	7,220	9,462	10,413	11,119	11,612
1980 (1984 dollars):					
Wages	0	4,144	6,215	8,287	10,359
AFDC	4,533	2,775	1,857	1,152	632
Food stamps	1,682	1,218	997	702	385
Federal taxes	0	160	240	−189	−886
Total income	6,215	8,297	9,309	9,952	10,490
1984:					
Wages	0	4,144	6,215	8,287	10,359
AFDC	4,022	870	135	2	0
Food stamps	1,740	1,668	1,364	894	385
Federal taxes	0	136	−44	−678	−1,297
Total income	5,762	6,818	7,670	8,505	9,447

Note: Weighted average across States. If taxes are positive, this means the family received a refundable earned income tax credit. A minus sign coincides with the normal definition of taxes. Federal taxes includes both income and payroll taxes.

TABLE 21.—COMPARISON OF THE AVERAGE AMOUNT OF DISPOSABLE INCOME AND AS A PERCENTAGE OF THE POVERTY THRESHOLD AMONG STATES FOR A MOTHER WITH TWO CHILDREN WITHOUT DAY CARE EXPENSES WITH DIFFERENT WAGE AMOUNTS, 1976, 1980, AND 1984

	Wages (as a percent of poverty threshold)				
	0	50	75	100	125
1984 dollar equivalent	0	4,144	6,215	8,287	10,359
Average disposable income:					
1976 (1984 dollars)	7,220	9,462	10,413	11,119	11,612
1980 (1984 dollars)	6,215	8,297	9,309	9,952	10,490
1984	5,762	6,818	7,670	8,505	9,447
Percentage change:					
1976–80	−13.9	−12.3	−10.6	−10.5	−9.7
1980–84	−7.3	−17.8	−17.6	−14.5	−9.9
1984–86	−20.2	−27.9	−26.3	−23.5	−18.6
Disposable income as a percentage of poverty thresholds:					
1976	87.1	114.2	125.7	134.2	140.1
1980	75.0	100.1	112.3	120.1	126.6
1984	69.5	82.3	92.6	102.6	114.0

TABLE 21.—COMPARISON OF THE AVERAGE AMOUNT OF DISPOSABLE INCOME AND AS A PERCENTAGE OF THE POVERTY THRESHOLD AMONG STATES FOR A MOTHER WITH TWO CHILDREN WITHOUT DAY CARE EXPENSES WITH DIFFERENT WAGE AMOUNTS, 1976, 1980, AND 1984—Continued

	Wages (as a percent of poverty threshold)				
	0	50	75	100	125
Number of States which supplement wages with AFDC:					
1976	NA	49	47	43	33
1980	NA	47	42	33	20
1984	NA	24	6	1	0
Number of States with disposable income above poverty:					
1976	11	40	49	49	49
1980	0	21	36	49	49
1984	0	2	1	49	49

NA—Not applicable.

Note: Weighted average across States. Disposable income is wages plus AFDC plus food stamps less Federal taxes. Poverty thresholds are for a nonfarm family of 3 and are indexed to CPI-U. The values for 1976, 1980, and 1984 are $4,540, $6,565, and $8,287, respectively.

STUDY METHODOLOGY

AFDC

Each State's AFDC program was modeled using the appropriate need standard, payment standard, percentage of deficit paid (usually 100 percent), and maximum benefit for July of each year from 1972 to 1984. The AFDC benefit listed in table 15 for 1960 is the January 1961 benefit amount to which was applied the State maximum AFDC payment amounts in effect for September 1960. Data for 1964 are the January 1965 benefit. All of the AFDC benefit amounts are from a series of HEW publications entitled: "State Maximums and Other Methods of Limiting Money Payments to Recipients Under the Special Types of Public Assistance," September 1960 and October 1968; or "Monthly Cost Standards Used by States for Specified Types of Old Age Assistance Cases and Families Receiving Aid to Families with Dependent Children," January 1961 and January 1965.

The benefit level for 1968 is for the month of April. Data for 1972 to 1984 were provided by the Congressional Research Service. The earlier year data (1960 to 1968) are of lower quality than from 1972 on. However, the general trends noted in table 15 for 1960 to 1968 are correct.

For 1972, 1976, and 1980, monthly work expenses of 10 percent of gross wages to a maximum of $23, $31, and $45 are assumed, respectively; in 1984, the full $75 monthly deduction is included. The earned income disregards are applied in 1980 according to the rules in effect prior to enactment of the Omnibus Budget Reconciliation Act (OBRA). In 1984, the benefit is calculated in the fifth month of eligibility, after the termination of the earned income disregards because the majority of female heads with wages are not in their first 4 months of employment. See table 1 in section 8 as to how the earnings disregards were applied.

Food stamps

Given the wages and AFDC benefits, the food stamp benefit is calculated using the July 1972, 1976, 1980, and 1984 food stamp parameters (see table 22).

Earned income tax credit

For 1980 and 1984 the EITC is calculated for AFDC families with adjusted gross income and earned income below $10,000 annually. The credit equals 10 percent of the first $5,000 in earnings; it may not exceed $500 per family. It is phased out at a 12.5 percent rate for earnings above $6,000. For 1972 the credit is not applicable, and for 1976 the credit equals 10 percent of the first $4,000 of wages. It is phased out at a 10 percent rate between earnings of $4,000 and $8,000. The EITC is counted as earnings for AFDC purposes only in 1984.

Federal income taxes

These are calculated using the head of household tax rates with a standard deduction and exemptions equal to the number of family members.

Federal payroll taxes

Only FICA is included. The tax rate is 5.20 percent, 5.85 percent, 6.13 percent, and 6.70 percent of wages for 1972, 1976, 1980, and 1984, respectively.

This methodology did not incorporate any other sources of income or expenses although it is possible that these families could have other income sources. The value of health care benefits—in the form of Medicaid or private health insurance—has not been included. A low-income energy assistance grant also was not assumed. However, several States in 1984 (Maryland, New York, Oregon, Rhode Island, and Washington) have designated a portion of their AFDC grant as energy assistance and this is disregarded in calculating the food stamp benefit. This does not affect the family's eligibility for more energy assistance and the primary effect is to increase food stamp benefits. This energy disregard was modeled when food stamp benefits were calculated.

This section examines income in the one month of July which is the month in which AFDC benefits are usually increased. These amounts are then annualized to examine Federal tax policy. To some extent, this is a simplification of the real world. In some States, AFDC benefits vary by season. Food stamp benefit calculations are different at different times of the year. However, there is no reason to believe that annualizing July data presents a misleading picture of Federal and State policy changes between 1972 and 1984.

TABLE 22.—SUMMARY OF KEY FOOD STAMP PARAMETERS

	1972	1976	1980	1984
Monthly allotment:				
Family of 3	92	130	165	199.
Family of 4	112	166	209	253.
Monthly deduction amount.	40 [1]	55 [1]	75	89.
Work expenses	Actual taxes plus 10 percent of wages up to $275 annually.	Actual taxes plus 10 percent of wages up to $375 annually.	20 percent of wages.	18 percent of wages.
Monthly shelter deduction.	None	None	45	62.50.
Monthly countable income limit:				
Family of 3	Not applicable	$433	$520	$705.
Family of 4	$390	$570	$621	$825.
Gross monthly income limit:				
Family of 3	None	None	None	$917.
Family of 4	None	None	None	$1,073.

---

[1] In addition, the monthly purchase requirement table had a $30 deduction amount built into the table. These amounts include the shelter deduction.

APPENDIX K. SELECTED ECONOMIC AND POPULATION DATA FOR THE UNITED STATES AND BY STATE

TABLE 1.—SELECTED ECONOMIC DATA

	1970	1975	1980	1984	1985
Poor and near-poor data:					
Poverty threshold nonfarm:					
Family of 4	$3,968	$5,500	$8,410	$10,609	[1] $10,990
Percent poor:					
Total population	12.6	12.3	13.0	14.4	NA
Aged (65 and over)	24.5	15.3	15.7	12.4	NA
Related children under 18	14.9	16.8	17.9	21.0	NA
Female headed households	38.2	34.6	33.8	34.5	NA
Wages:					
Average manufacturing wage [2]	$3.35	$4.83	$7.27	$9.18	[p] $9.52
Federal minimum wage	$1.60	$2.30	$3.10	$3.35	$3.35
Average annual wages and salaries [3]	$6,231	$8,504	$12,225	$15,291	$15,660
Unemployment rate (percent):					
Total [4]	4.8	8.3	7.0	7.4	7.1
Insured unemployment	3.4	6.0	3.9	2.8	NA
Income:					
Median family income (constant 1984 dollars)	$26,394	$26,476	$26,500	$26,433	NA
GNP (billions):					
Current dollars	$1,016	$1,598	$2,732	$3,775	[p] $3,993
Constant 1982 dollars	$2,416	$2,695	$3,187	$3,492	[p] $3,574
Wages and salaries as a percent of GNP	54	51	50	49	[p] 49
Population: [5]					
Total residents (millions)	203.2	215.5	227.2	236.1	NA
Under 18 years	69.7	67.2	63.7	NA	NA
18 through 64 years	113.6	125.6	137.8	NA	NA
65 and over	20.0	22.7	25.7	NA	NA

[1] Estimate.

[2] Includes overtime.

[3] Full-year equivalent for total private nonagricultural workers.

[4] Percent of total labor force, including Armed Forces residing in the United States.

[5] July data except for 1970 and 1980 (April).

[p] Preliminary.

NA—Not available.

TABLE 2.—MONTHLY DATA FOR CPI-U SINCE 1970

CPI-U: All Items (1967 = 100)

Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Avg.
1970.....	113.3	113.9	114.5	115.2	115.7	116.3	116.7	116.9	117.5	118.1	118.5	119.1	116.3
1971.....	119.2	119.4	119.8	120.2	120.8	121.5	121.8	122.1	122.2	122.4	122.6	123.1	121.3
1972.....	123.2	123.8	124.0	124.3	124.7	125.0	125.5	125.7	126.2	126.6	126.9	127.3	125.3
1973.....	127.7	128.6	129.8	130.7	131.5	132.4	132.7	135.1	135.5	136.6	137.6	138.5	133.1
1974.....	139.7	141.5	143.1	143.9	145.5	146.9	148.0	149.9	151.7	153.0	154.3	155.4	147.7
1975.....	156.1	157.2	157.8	158.6	159.3	160.6	162.3	162.8	163.6	164.6	165.6	166.3	161.2
1976.....	166.7	167.1	167.5	168.2	169.2	170.1	171.1	171.9	172.6	173.3	173.8	174.3	170.5
1977.....	175.3	177.1	178.2	179.6	180.6	181.8	182.6	183.3	184.0	184.5	185.4	186.1	181.5
1978.....	187.2	188.4	189.8	191.5	193.3	195.3	196.7	197.8	199.3	200.9	202.0	202.9	195.4
1979.....	204.7	207.1	209.1	211.5	214.1	216.6	218.9	221.1	223.4	225.4	227.5	229.9	217.4
1980.....	233.2	236.4	239.8	242.5	244.9	247.6	247.8	249.4	251.7	253.9	256.2	258.4	246.8
1981.....	260.5	263.2	265.1	266.8	269.0	271.3	274.4	276.5	279.3	279.9	280.7	281.5	272.4
1982.....	282.5	283.4	283.1	284.3	287.1	290.6	292.2	292.8	293.3	294.1	293.6	292.4	289.1
1983.....	293.1	293.2	293.4	295.5	297.1	298.1	299.3	303.3	301.8	302.6	303.1	303.5	298.4
1984.....	305.2	306.6	307.3	308.8	309.7	310.7	311.7	313.0	314.5	315.3	315.3	315.5	311.1
1985.....	316.1	317.4	318.8	320.1	321.3	322.3	322.8	323.5	324.5	325.5	326.6	327.4	322.2

TABLE 3.—POPULATION STATISTICS BY STATE

State	Resident population July 1, 1985 (thousands)	Population 65 years and over (thousands)	Percentage of population over age 65	Percentage change 1980–84 [1]	Percentage change 1970–80
Total	238,291	28,040	11.9	4.2	11.4
Connecticut	3,174	407	12.9	2.1	2.5
Maine	1,164	152	13.1	3.5	13.2
Massachusetts	5,882	777	13.4	1.5	0.8
New Hampshire	998	114	11.7	8.4	24.8
Rhode Island	968	138	14.3	2.2	−0.3
Vermont	535	63	11.8	4.6	15.0
Delaware	622	67	11.0	4.6	8.4
District of Columbia	626	75	12.1	−2.0	−15.6
Maryland	4,392	447	10.3	4.2	7.5
New Jersey	7,562	942	12.5	2.7	2.7
New York	17,783	2,247	12.7	1.3	−3.7
Pennsylvania	11,853	1,676	14.1	−0.1	0.5
Illinois	11,535	1,356	11.8	0.9	2.8
Indiana	5,499	638	11.6	0.2	5.7
Michigan	9,088	1,007	11.1	−1.9	4.3
Ohio	10,744	1,280	11.9	−0.5	1.3
Wisconsin	4,775	611	12.8	1.5	6.5
Iowa	2,884	410	14.1	−1.0	3.1
Kansas	2,450	323	13.3	3.7	5.1
Minnesota	4,193	517	12.4	2.9	7.1
Missouri	5,029	682	13.6	2.3	5.1
Nebraska	1,606	216	13.4	2.3	5.7
North Dakota	685	87	12.6	4.9	5.7
South Dakota	708	96	13.6	2.5	3.7
Alabama	4,021	476	11.9	3.3	13.1
Arkansas	2,359	336	14.3	3.2	18.9
Florida	11,366	1,931	17.6	16.6	43.5
Georgia	5,976	577	9.9	9.4	19.1
Kentucky	3,726	438	11.8	1.8	13.7
Louisiana	4,481	435	9.7	6.5	15.4
Mississippi	2,613	306	11.8	3.7	13.7
North Carolina	6,255	688	11.2	6.4	15.7
South Carolina	3,347	331	10.0	7.2	20.5
Tennessee	4,762	566	12.0	3.7	16.9
Virginia	5,706	572	10.2	6.7	14.9
West Virginia	1,936	255	13.0	−0.7	11.8
Arizona	3,187	375	12.3	17.2	53.1
New Mexico	1,450	135	9.5	11.3	28.1
Oklahoma	3,301	401	12.1	9.1	18.2

TABLE 3.—POPULATION STATISTICS BY STATE—Continued

State	Resident population July 1, 1985 (thousands)	Population 65 years and over (thousands)	Percentage of population over age 65	Percentage change 1980-84 [1]	Percentage change 1970-80
Texas	16,370	1,514	9.5	15.0	27.1
Colorado	3,231	280	8.8	11.8	30.8
Idaho	1,005	108	10.8	6.4	32.4
Montana	826	96	11.6	5.0	13.3
Utah	1,645	128	7.7	12.6	37.9
Wyoming	509	42	8.2	8.5	41.3
California	26,365	2,693	10.5	11.4	18.5
Nevada	936	87	9.5	16.9	63.8
Oregon	2,687	344	12.9	2.1	25.9
Washington	4,409	492	11.3	6.7	21.1
Alaska	521	15	3.1	29.7	32.8
Hawaii	1,054	94	9.0	9.2	25.3

[1] Figures revised, December 1985.

Source: U.S. Department of Commerce, Bureau of the Census, Population Estimates and Projections, Series P-25, No. 957, Press Release CB84-233, and unpublished records.

TABLE 4.—INCOME, POVERTY AND UNEMPLOYMENT STATISTICS BY STATE

State	1984 per capita personal income [1]	Rank 1984 [1]	1984 unemployment rate [2] (percent)	Poverty rate		
				1969 [3]	1975 [4]	1979 [5]
Total			7.5	13.7	11.4	12.4
Connecticut	16,556	2	4.6	7.2	6.7	8.0
Maine	10,813	37	6.1	13.6	12.0	13.0
Massachusetts	14,784	4	4.8	8.6	7.1	9.6
New Hampshire	13,192	15	4.3	9.1	7.9	8.5
Rhode Island	12,820	17	5.3	11.0	8.7	10.3
Vermont	10,802	39	5.2	12.1	13.5	12.0
Delaware	13,685	10	6.2	10.9	8.2	11.8
District of Columbia	17,113	....	9.0	17.0	12.5	18.6
Maryland	14,464	6	5.4	10.1	7.7	9.8
New Jersey	15,440	3	6.2	8.1	8.1	9.5
New York	14,318	7	7.2	11.1	9.4	13.4
Pennsylvania	12,314	26	9.1	10.6	9.7	10.5
Illinois	13,802	9	9.1	10.2	10.5	11.0
Indiana	11,717	31	8.6	9.7	8.1	9.7
Michigan	12,607	20	11.2	9.4	9.1	10.4
Ohio	12,355	24	9.4	10.0	9.4	10.3
Wisconsin	12,474	22	7.3	9.8	7.7	8.7

TABLE 4.—INCOME, POVERTY AND UNEMPLOYMENT STATISTICS BY STATE—Continued

State	1984 per capita personal income [1]	Rank 1984 [1]	1984 unemployment rate [2] (percent)	Poverty rate		
				1969 [3]	1975 [4]	1979 [5]
Iowa	12,160	28	7.0	11.6	7.9	10.1
Kansas	13,248	13	5.2	12.7	8.0	10.1
Minnesota	13,247	14	6.3	10.7	8.3	9.5
Missouri	12,151	29	7.2	14.7	12.0	12.2
Nebraska	12,430	23	4.4	13.1	9.6	10.7
North Dakota	12,352	25	5.1	15.7	10.6	12.6
South Dakota	11,069	35	4.3	18.7	13.1	16.9
Alabama	9,992	46	11.1	25.4	16.4	18.9
Arkansas	9,805	47	8.9	27.8	18.5	19.0
Florida	12,763	19	6.3	16.4	14.4	13.4
Georgia	11,551	34	6.0	20.7	18.0	16.6
Kentucky	10,300	42	9.3	22.9	17.7	17.6
Louisiana	10,808	38	10.0	26.3	19.3	18.6
Mississippi	8,777	50	10.8	35.4	26.1	23.9
North Carolina	10,850	36	6.7	20.3	14.7	14.8
South Carolina	10,116	44	7.1	23.9	17.2	16.6
Tennessee	10,419	41	8.6	21.8	15.8	16.4
Virginia	13,254	12	5.0	15.5	10.5	11.8
West Virginia	9,728	49	15.0	22.2	15.1	15.0
Arizona	11,841	30	5.0	15.3	13.8	13.2
New Mexico	10,262	43	7.5	22.8	19.3	17.6
Oklahoma	11,655	32	7.0	18.8	[illegible]	13.4
Texas	12,572	21	5.9	18.8	15.2	14.7
Colorado	13,847	8	5.6	12.3	9.1	10.1
Idaho	10,092	45	7.2	13.2	10.3	12.6
Montana	10,546	40	7.4	13.6	11.5	12.3
Utah	9,733	48	6.5	11.4	8.5	10.3
Wyoming	12,224	27	6.3	11.7	8.7	7.9
California	14,487	5	7.8	11.1	10.4	11.4
Nevada	13,320	11	7.8	9.1	8.8	8.7
Oregon	11,611	33	9.4	11.5	8.9	10.7
Washington	12,792	18	9.5	10.2	8.5	9.8
Alaska	17,487	1	10.0	12.6	6.7	10.7
Hawaii	13,042	16	5.6	9.3	7.9	9.9

---

[1] U.S. Department of Commerce, Bureau of Economic Analysis.

[2] U.S. Department of Labor, Bureau of Labor Statistics, Current Population Survey.

[3] U.S. Bureau of the Census, Statistical Abstract of the United States: 1979, table 764, pp. 465 (100th edition), Washington, D.C. 1979. 1969 estimates are from the 1970 census.

[4] Data are also from the 1979 Statistical Abstract of the United States, but estimates are from the Survey of Income and Education.

[5] U.S. Bureau of the Census, Statistical Abstract of the United States: 1982-83, table 732, p. 443. (103d edition.) Washington, D.C. 1982. 1979 estimates are from the 1980 census.

TABLE 5.—POPULATION BY AGE GROUPS, 1940–85, SELECTED YEARS

[Thousands of persons]

July 1	Total	Age (years)				
		16–19	20–24	25–44	45–64	65 and over
1940	132,122	9,895	11,690	39,868	26,249	9,031
1945	139,928	9,361	12,036	42,521	28,630	10,494
1950	152,271	8,542	11,680	45,672	30,849	12,397
1955	165,931	8,744	10,714	47,194	33,506	14,525
1960	180,671	10,683	11,134	47,140	36,203	16,675
1965	194,303	13,516	13,746	46,912	38,916	18,451
1970	205,052	15,289	17,202	48,473	41,999	20,107
1971	207,661	15,688	18,159	48,936	42,482	20,561
1972	209,896	16,039	18,153	50,482	42,898	21,020
1973	211,909	16,446	18,521	51,749	43,235	21,525
1974	213,854	16,769	18,975	53,051	43,522	22,061
1975	215,973	17,017	19,527	54,302	43,801	22,696
1976	218,035	17,194	19,986	55,852	44,008	23,278
1977	220,239	17,276	20,499	57,561	44,150	23,892
1978	222,585	17,288	20,946	59,400	44,286	24,502
1979	225,055	17,242	21,297	61,379	44,390	25,134
1980	227,738	17,160	21,579	63,488	44,510	25,709
1981	230,043	16,769	21,799	65,583	44,546	26,259
1982	232,345	16,247	21,780	67,772	44,560	26,861
1983	234,538	15,689	21,680	69,826	44,623	27,474
1984	236,681	15,121	21,525	71,825	44,752	28,040
1985	238,816					

Note: Includes Armed Forces overseas. Alaska and Hawaii beginning 1950.

Source: Department of Commerce, Bureau of the Census.

TABLE 6.—PROJECTIONS OF THE RESIDENT POPULATION OF THE UNITED STATES, BY AGE AND SEX: 1980 TO 2000

[In thousands as of July 1, except as noted]

Age (years)	Both sexes			Female		
	Census, (April 1, 1980)	Projections		Census (April 1, 1980)	Projections	
		1990	2000		1990	2000
Total, all ages	226,546	249,134	267,432	116,493	128,089	137,414
15 to 19	21,168	16,916	18,891	10,413	8,294	9,257
20 to 24	21,319	18,360	16,925	10,655	9,111	8,396
25 to 29	19,521	21,410	17,284	9,816	10,632	8,579
30 to 34	17,561	21,939	18,951	8,884	10,991	9,430
35 to 39	13,965	19,955	21,707	7,104	10,067	10,827
40 to 44	11,669	17,827	21,971	5,961	9,048	11,049
45 to 49	11,090	13,975	19,758	5,702	7,148	10,024
50 to 54	11,710	11,421	17,355	6,089	5,903	8,899
55 to 59	11,615	10,433	13,280	6,133	5,479	6,917
60 to 64	10,088	10,618	10,487	5,418	5,701	5,578
65 to 69	8,782	9,996	9,096	4,880	5,538	4,989
70 to 74	6,798	8,039	8,581	3,945	4,634	4,916
75 to 79	4,794	6,260	7,295	2,946	3,825	4,426
80 to 84	2,935	4,089	5,023	1,916	2,669	3,252
85 and over	2,240	3,313	4,926	1,559	2,393	3,576

Source: Bureau of the Census, Population Estimates and Projections, Series P-25, No. 952.

APPENDIX L. QUALITY CONTROL SYSTEMS

In the four major welfare programs, AFDC, SSI, medicaid, and the food stamp program, the Federal Government and the States have established on-going "quality control" systems. These systems have two goals: correcting faults in program administration that contribute to erroneous payments and reducing the extent of misspent benefit dollars. To these ends, they attempt to: (1) measure the extent and dollar value of "errors" in administration; (2) identify the types and causes of error; and (3) specify and monitor corrective actions taken to eliminate or reduce errors.

Fiscal incentives and sanctions have also been made a part of these systems. Under these sanctions States can be held liable for the cost of benefit payments made in excess of federally established error tolerance levels, often referred to as target error rates, or (in the food stamp program) they may be sanctioned by the loss of a portion or all of the Federal share of their food stamp administrative expenses. The Tax Equity and Fiscal Responsibility Act of 1982 (P.L. 97-248) included new target error rates for AFDC and medicaid; the 1982 Omnibus Budget Reconciliation Act (P.L. 97-253) also established target error rates for the food stamp program. The AFDC target error rate for fiscal year 1983 was 4 percent, and was reduced to 3 percent for fiscal year 1984 and thereafter. For medicaid, a 3-percent target error rate was established for quarters beginning after March 30, 1983. Under medicaid, prospective fiscal sanctions were authorized to be applied beginning in the second half of fiscal year 1983 for States with error rates exceeding 3 percent. However, errors, which, if corrected, would not have made a difference in the amount of medical assistance paid, are excluded from the calculation. Prospective sanctions are currently being challenged in court by several States.

Under the food stamp law which became effective at the start of fiscal year 1983, States were required to reduce their error rates by one-third each year, but they also must reach 5 percent by fiscal year 1985.

For AFDC and medicaid there are no longer any fiscal incentive provisions except in Guam, Puerto Rico, and the Virgin Islands. For food stamps, the incentive provision is an increase from 50 percent to 60 percent in the Federal share of administrative costs for States with error rates of 5 percent or less.

MEASUREMENT OF ERROR

The core of the four existing quality control systems is the quality control case survey. Each system compiles the results of a randomly selected, statistically valid, sample of cases ranging from 40,000 to 80,000 nationwide. For AFDC and food stamps, the cases are now selected, and error data compiled, on an annual basis rather than every 6 months as is the case in Medicaid and SSI. In the past, AFDC and food stamps also collected QC data every 6 months. Each selected case is subjected to a thorough review by quality control personnel, including a full field investigation. This review identifies payments to ineligibles, overpayments, underpayments, the type of error made, the responsibility (recipient versus administering agency) for the error, and, in some cases, incorrect denials of aid. Error "rates" are then established for that review period for each State: "caseload" error rates indicate the proportion of ineligible cases, overpaid cases, underpaid cases, and, in some cases, improperly denied cases in the sample caseload; "payment" error rates indicate the extent of erroneous payments in each category of error as a proportion of total dollars paid out to the sampled caseload. Moreover, information on the sources and types of errors identified in each quality control review is compiled for use in implementing administrative "corrective actions" intended to reduce or eliminate similar errors in the future.

In the AFDC and food stamp systems, quality control error rates quantify the extent to which eligibility and payment errors exist in the State-administered caseloads of these two programs. In the medicaid system, quality control error rates indicate the extent to which errors as to eligibility, overpayment, claims processing (payment of improper claims), and identification of third-party liability exist in the medicaid population. And, in the SSI system, quality control error rates illustrate the extent and cost of errors in the federally administered caseload.

The "errors" identified and measured in all four quality control systems range from simple procedural or arithmetical mistakes, to lack of verification or nonreporting of income, to outright recipient fraud. As a result, although quality control error rates and the information behind them do give a picture of the extent to which improper decisions are being made and help administering agencies pinpoint areas where improvement is needed, they do not represent a statistically accurate measure of intentional actions such as fraud. In fact, "agency-caused" procedural errors make up nearly half the errors typically identified in quality control surveys, and "recipient-caused" errors are often simple mistakes in understanding what is required or failure to provide information on a timely basis.

ADMINISTRATION

In the AFDC, medicaid, and food stamp programs, the quality control systems are operated by State quality control staff under Federal instructions and guidelines. A State's error rate is determined by using findings from both the State's full sample and a Federal subsample. In the SSI program, the entire quality control system is Federally operated since it measures the performance of Federal administration. When identifying errors in food stamp and SSI administration, agency and recipient actions are compared to Federal rules; in the AFDC and medicaid systems, errors are identified through comparison with State operating policies, the State plan and Federal regulations.

The cost of operating quality control systems is carried as a regular administrative cost and is shared by the States and Federal Government, just as any other administrative expense.

CORRECTIVE ACTION

The basic goal of quality control systems is to reduce, over time, the extent and cost of errors in program administration. As part of each system, "corrective action plans" for error reduction are regularly formulated based on the findings of the quality control sample surveys. Corrective actions can range from personnel policy changes or new computer systems, to substantive changes in eligibility rules or procedures for verifying information provided by recipients. Very often, "error-prone" profiles are drawn up from the results of quality control surveys to assist administrators in identifying cases to which particular attention should be paid.

SANCTIONS AND INCENTIVES

Another use of the results of a quality control sample is to determine the degree to which States (or the Federal Government in the case of SSI) will be held financially liable for erroneous payments.

In the AFDC and medicaid systems, States may be "sanctioned" by being required to pay the Federal Government the Federal cost of improperly issued benefits, as shown by quality control surveys, if they do not keep their error rates below the target rates established by the Tax Equity and Fiscal Responsibility Act for AFDC and medicaid. The fiscal sanction that may be imposed is the amount of Federal funds misspent above the target error rate. In food stamps, States may be sanctioned through loss of a portion or all of the Federal share of their administrative expenses. However, while fiscal sanctions have been included in legislation prior to the 1982 laws, they have been waived when States demonstrate that they are making a good faith effort to reduce errors. When waivers are not granted, States have begun to appeal the decision to impose sanctions through administrative channels and the courts. Table 1 depicts the estimated AFDC sanction amounts and collection schedule according to the Department of Health and Human Services and the Congressional Budget Office. HHS assumes that the entire estimated sanction will be collected beginning in fiscal year 1985. CBO delays collection and assumes that waivers will be granted for two-thirds of the estimated sanction amount.

Food stamp program incentive payments are made as increases in the Federal share of State administrative expenses—from the normal 50 percent to 60 percent where the cumulative error rate is less than 5 percent. The food stamp incentive payment requirements also stipulate that the rate of improper denials must fall below a Federal tolerance level in order for an incentive payment to be made on the basis of low or rapidly reducing rates of erroneous payment.

Table 2 summarizes national payment error rates for the four major welfare programs over recent quality control review periods. Table 3 shows the historical trend in the AFDC error rate beginning in 1973.

For AFDC, the national average payment error rate has remained well above the target rate of 4.0 percent. Food stamp program quality control data also show error rates well above the legislated target levels. However, the medicaid program has shown declining error rates.

TABLE 1.—SANCTION AMOUNTS AND ESTIMATED COLLECTION SCHEDULE

Year errors were made	Estimated sanction amount (in millions)	HHS and CBO projected schedules for collecting sanctions	
		HHS estimate	CBO estimate
Fiscal year:			
1981	[1] $69		
1982	96		
1983	184		
1984	228		
1985	200	0	0
1986	178	0	0
1987	160	$777	0
1988	142	178	$83
1989	120	160	245
1990	99	142	253
1991	NA	120	202
Total	1,476	1,377	783

[1] Disallowance notices issued to States. Amount reflects waivers by Secretary of HHS.

Source: Department of Health and Human Services and Congressional Budget Office. Compiled by committee staff.

TABLE 2.—SUMMARY OF NATIONAL OVERPAYMENT ERROR RATES BY PROGRAM

	AFDC	Medicaid [1]	Food stamps [2]	SSI
October 1979–March 1980	8.3	5.2	10.2	5.0
April 1980–September 1980	7.3	5.0	8.9	4.9
October 1980–March 1981	8.3	4.0	10.5	5.3
April 1981–September 1981	7.0	3.0	9.1	4.9
October 1981–March 1982	7.3	2.7	9.9	4.8
April 1982–September 1982	[3] 6.6	2.9	9.2	4.1
October 1982–March 1983	6.2	2.6	8.2	4.1
April 1983–September 1983	6.8	2.9	8.5	3.6
October 1983–March 1984	6.2	2.5	NA	[4] 3.3
April 1984–September 1984	5.8	2.9	NA	[4] 3.3

[1] The error rates for the periods between October 1979 and March 1981 have been adjusted to reflect the new payment error rate definition implemented in April 1981.

[2] Overpayment dollar error rate only. Source: Official Federally corrected rates, General Accounting Office.

[3] Estimated.

[4] The SSI error rate is no longer calculated for a six month period, but for a fiscal year. These statistics are for fiscal year 1984.

Note: Overpayment errors include payments made to ineligible families but does not include underpayments.

Source: Department of Health and Human Services and U.S. Department of Agriculture. Compiled by committee staff.

TABLE 3.—HISTORICAL TRENDS IN THE AFDC ERROR RATE, 1973–84

Period	Percent	Period	Percent
April–September 1973	16.5	April–September 1979	9.5
January–June 1974	14.8	October–March 1980	8.3
July–December 1974	13.6	April–September 1980	7.3
January–June 1975	12.0	October–March 1981	8.3
July–December 1975	10.2	April–September 1981	7.0
January–June 1976	9.6	October–March 1982	7.3
July–December 1976	8.5	April–September 1982	6.6
January–June 1977	8.6	October 1982–March 1983	6.2
July–December 1977	8.7	April 1983–September 1983	6.8
January–June 1978	10.5	October 1983–March 1984	6.2
April–September 1978	9.4	April 1984–September 1984	5.8
October–March 1979	10.4		

Source: Office of Family Assistance; Social Security Administration, January 1986.

HISTORICAL PERSPECTIVE OF QUALITY CONTROL IN THE AFDC PROGRAM

In the early 1960's, as AFDC costs and caseloads began to grow, Congress requested that the Department of Health, Education, and Welfare verify AFDC expenditures. In response to this request, the Department developed an on-going system to validate eligibility and benefits and to serve as a management tool to improve the accuracy of the eligibility and benefit determination process. This evolved into the current quality control system. Table 4 shows State payment errors over time.

In 1973 regulations were issued establishing error tolerance levels of 3 percent on errors resulting from ineligibility and 5 percent on under and overpayments. Any erroneous payments made by the State above these amounts would be disallowed. These tolerances, which were not established by statute, were challenged in court as being arbitrary and capricious by the State of Maryland (*Mathews* v. *Maryland*). The court ruled in Maryland's favor (1978).

On March 7, 1979, the Department issued new regulations establishing error rate limits based on the national average of error rates. The March 7 regulations also included a "good cause" provision enabling the Secretary to waive disallowances based on the State's failure to meet the limit. The March 7 regulation and the threat of disallowances were effective in getting States to implement corrective action. Disallowances were temporarily suspended if States submitted negotiated corrective action plans. No disallowances were taken.

In 1979 the Michel amendment was attached to the Labor, HHS and Education fiscal year 1980 appropriation bill. This amendment requires each State to reach a payment error rate of 4 percent by September 30, 1983. In January 1980 the Department issued the following rules implementing the Michel requirements: States were required to make one-third progress toward the 4 percent goal in fiscal year 1981; two-thirds progress toward the goal in fiscal year 1982; and to attain 4 percent in fiscal year 1983.

The Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA) included further AFDC error rate reduction requirements. TEFRA requires States to move from the 4 percent standard established by the Michel amendment to a 3 percent standard in fiscal year 1984.

Table 4 shows the State error rates for FY 82–84. States exceeding the target for a given year are indicated. HHS has delayed notifying States of the disallowance amounts for each of these years until new regulations governing the waiver process are issued.

Columns 1 and 2 of table 5 show State payment error rates and target error rates for fiscal year 1981, the first year the Michel requirements were in effect. Based on these data, 28 States are subject to disallowance for failure to meet their error rate targets for that fiscal year.[1] These are shown in column 3. In March 1983, States were informed of their failure to meet their targets, of the amount of the disallowances, and of the States' right to request a waiver of the disallowance. All 28 States subject to disallowance for failure to meet their fiscal year 1981 targets requested good faith waivers. In April 1986, six States were granted waivers by the HHS Secretary; the remainder have appealed the Secretary's decision to the Grant Appeals Board. Column 4 of table 5 shows the post-waiver disallowance amounts.

TABLE 4.—AFDC ERROR RATES FOR BASE PERIOD AND FISCAL YEARS 1980–84

	April–September 1978	1980	1981	1982	1983	1984
U.S. Average	9.4	7.8	7.6	6.9	6.5	6.0
Alabama	9.5	7.1	[1] 7.7	5.3	3.2	[1] 4.4
Alaska	31.2	13.9	18.2	12.1	[1] 15.5	[1] 6.8
Arizona [2]	8.0	8.7	[1] 8.3	[1] 11.6	[1] 10.0	[1] 9.7
Arkansas	9.1	7.6	6.8	[1] 7.0	[1] 4.9	[1] 3.8
California	3.7	5.7	[1] 6.8	[1] 6.0	[1] 4.8	[1] 5.2
Colorado	4.3	11.6	[1] 8.2	[1] 6.6	[1] 6.2	[1] 4.6
Connecticut	8.6	6.3	[1] 7.4	[1] 6.4	[1] 4.4	[1] 3.4
Delaware	16.1	8.0	11.3	[1] 11.9	[1] 9.4	[1] 7.8
District of Columbia	22.4	12.5	13.6	[1] 17.1	[1] 13.1	[1] 11.2
Florida	5.6	6.1	[1] 7.9	[1] 6.0	[1] 4.5	[1] 5.4
Georgia	7.8	8.1	6.5	5.1	[1] 5.7	[1] 6.2
Hawaii	9.2	9.0	[1] 10.1	[1] 8.2	[1] 6.9	[1] 6.7
Idaho	4.4	9.0	[1] 9.1	[1] 5.4	3.0	[1] 9.7

---

[1] The fiscal year 1984 appropriation legislation suggested that no sanctions be taken until a major review of the quality control program is carried out; the Department, as of January 10, 1984, was proceeding with the sanctioning process.

TABLE 4.—AFDC ERROR RATES FOR BASE PERIOD AND FISCAL YEARS 1980–84—Continued

	April–September 1978	1980	1981	1982	1983	1984
Illinois	17.1	8.1	8.3	8.2	[1] 6.8	[1] 6.5
Indiana	3.7	4.5	[1] 4.1	3.9	[1] 4.9	[1] 4.0
Iowa	7.8	4.2	4.3	4.5	3.4	[1] 3.7
Kansas	4.1	5.8	[1] 8.1	2.8	[1] 5.1	[1] 5.5
Kentucky	10.2	5.4	5.0	3.6	3.4	[1] 4.1
Louisiana	11.1	6.8	6.7	6.2	[1] 5.7	[1] 5.8
Maine	9.2	6.6	[1] 7.9	4.1	[1] 4.5	[1] 4.1
Maryland [2]	13.6	12.7	[1] 11.6	[1] 8.2	[1] 5.3	[1] 5.7
Massachusetts	15.9	12.5	9.3	7.4	[1] 11.4	[1] 7.8
Michigan	9.2	7.7	7.3	[1] 8.2	[1] 9.1	[1] 8.0
Minnesota	3.4	3.3	[1] 4.4	3.0	2.6	2.0
Mississippi	11.6	7.4	6.9	4.7	3.5	2.0
Missouri	10.1	7.3	7.1	4.8	3.4	[1] 3.7
Montana	9.7	10.2	4.9	2.5	2.5	[1] 6.9
Nebraska	4.6	4.9	[1] 5.5	[1] 9.6	[1] 4.7	[1] 6.9
Nevada	0.6	1.2	2.3	1.3	2.7	2.1
New Hampshire	11.0	11.0	6.6	5.9	[1] 4.3	[1] 7.5
New Jersey [2]	9.3	10.4	[1] 8.0	[1] 7.3	[1] 6.4	[1] 5.1
New Mexico	4.8	7.3	[1] 12.4	[1] 10.5	[1] 6.0	[1] 5.9
New York	8.8	8.3	[1] 8.0	[1] 8.0	[1] 9.4	[1] 7.1
North Carolina	7.9	5.6	5.4	3.3	2.7	[1] 3.5
North Dakota	1.6	6.0	3.1	1.9	2.1	[1] 4.7
Ohio	9.5	8.7	[1] 8.9	[1] 7.6	[1] 5.6	[1] 6.4
Oklahoma	3.2	4.4	[1] 6.6	3.8	[1] 4.1	3.0
Oregon	12.7	4.5	6.8	[1] 7.1	[1] 6.0	[1] 4.6
Pennsylvania	16.3	9.8	9.0	[1] 8.5	[1] 9.1	[1] 9.1
Rhode Island	12.7	8.9	6.3	5.7	[1] 6.2	[1] 3.7
South Carolina [2]	7.1	7.3	[1] 7.8	[1] 8.9	[1] 7.1	[1] 7.8
South Dakota	4.8	5.2	[1] 4.6	3.7	2.1	2.9
Tennessee	7.0	7.0	[1] 8.9	4.9	[1] 4.5	[1] 4.3
Texas	6.9	7.6	[1] 7.5	[1] 8.4	[1] 6.9	[1] 5.7
Utah [2]	2.8	7.1	[1] 4.9	[1] 5.0	[1] 5.7	[1] 5.8
Vermont [2]	4.5	11.4	[1] 5.2	[1] 4.5	[1] 7.9	[1] 5.8
Virginia	11.7	5.0	3.6	4.1	3.8	[1] 3.5
Washington	6.7	9.0	[1] 9.3	[1] 6.4	[1] 4.8	[1] 4.1
West Virginia	11.3	6.1	7.4	[1] 8.2	3.0	4.8
Wisconsin	11.1	7.9	8.2	[1] 6.5	[1] 5.1	[1] 6.6
Wyoming	4.0	13.8	[1] 13.7	[1] 4.8	[1] 7.7	[1] 5.6

TABLE 4.—AFDC ERROR RATES FOR BASE PERIOD AND FISCAL YEARS 1980–84—Continued

	April–September 1978	1980	1981	1982	1983	1984
Puerto Rico	7.8	7.6	[1] 8.9	[1] 8.9	[1] 8.6	[1] 7.7
Guam	NA	NA	NA	NA	[1] 19.7	[1] 21.9
Virgin Islands	11.2	NA	6.9	4.6	[1] 8.6	2.4
Total subject to disallowance			28	28	40	49

[1] Error rate exceeds target.

[2] Granted waiver of fiscal year 1981 disallowance.

Source: Office of Family Assistance, Social Security Administration, January 1986.

TABLE 5.—AFDC ERROR AND TARGET RATES FOR FISCAL YEAR 1981 AND POTENTIAL DISALLOWANCE AMOUNTS

	Fiscal year 1981 [1]	Target rate	Potential disallowance amount (thousands)	Post-waiver disallowance amount (thousands)
U.S. average	7.6		$73,502	$69,159
Alabama	7.7	7.6	47	47
Alaska	18.2	22.1		
Arizona	8.3	6.7	209	0
Arkansas	6.8	7.4		
California	6.8	4.0	35,067	35,067
Colorado	8.2	4.2	1,898	1,898
Connecticut	7.4	7.1	313	313
Delaware	11.3	12.0		
District of Columbia	13.6	16.3		
Florida	7.9	5.1	3,467	3,467
Georgia	6.5	6.5		
Hawaii	10.1	7.5	1,212	1,212
Idaho	9.1	4.3	691	691
Illinois	8.3	12.7		
Indiana	4.1	4.0	113	113
Iowa	4.3	6.5		
Kansas	8.1	4.1	1,903	1,903
Kentucky	5.0	8.1		
Louisiana	6.7	8.7		
Maine	7.9	7.5	168	168
Maryland	11.6	10.4	1,325	0
Massachusetts	9.3	11.9		
Michigan	7.3	7.5		

TABLE 5.—AFDC ERROR AND TARGET RATES FOR FISCAL YEAR 1981 AND POTENTIAL DISALLOWANCE AMOUNTS—Continued

	Fiscal year 1981 [1]	Target rate	Potential disallowance amount (thousands)	Post-waiver disallowance amount (thousands)
Minnesota	4.4	4.0	571	571
Mississippi	6.9	9.0		
Missouri	7.1	8.1		
Montana	4.9	7.8		
Nebraska	5.5	4.4	280	280
Nevada	2.3	4.0		
New Hampshire	6.6	8.7		
New Jersey	8.0	7.5	1,280	0
New Mexico	12.4	4.5	2,554	2,554
New York	8.0	7.2	6,270	6,270
North Carolina	5.4	6.6		
North Dakota	3.1	4.0		
Ohio	8.9	7.7	3,930	3,930
Oklahoma	6.6	4.0	1,508	1,508
Oregon	6.8	9.8		
Pennsylvania	9.0	12.2		
Puerto Rico	8.9	6.6	1,714	1,714
Rhode Island	6.3	9.8		
South Carolina	7.8	6.1	1,004	0
South Dakota	4.6	4.5	13	13
Tennessee	8.9	6.0	1,754	1,754
Texas	7.5	5.9	1,112	1,112
Utah	4.9	4.0	300	0
Vermont	5.2	4.3	225	0
Virginia	3.6	9.1		
Washington	9.3	5.8	4,162	4,162
West Virginia	7.4	8.9		
Wisconsin	8.2	8.7		
Wyoming	13.7	4.0	413	413

[1] Weighted; each 6-month error rate is weighted by the percentage of total annual payments that was expended in that period.

Source: Department of Health and Human Services, Office of Family Assistance, January 1986.

TYPES OF AFDC ERROR

Tables 6-8 provide detailed information about the kinds of errors States make in administering the AFDC program. Table 6 shows the major types of error by State. Errors most commonly occur: (1) when determining the countable income of the family and applying the earned income disregards and other requirements related to establishing need and income levels; or (2) when applying basic program requirements—such as verifying age, school attendance, and deprivation—or assuring that procedural requirements are met.

These procedural requirements include noting all social security numbers of family members and filing the paperwork associated with assigning child support rights or registering for WIN. Such paperwork mistakes are known as "technical errors" and are included in the error rate on which fiscal sanctions are based. However, the payment amount does not always change after the technical error is corrected. For example, if a family of three is receiving an AFDC benefit of $325 but is missing one social security number in the file, an error has occurred and the family is ineligible for aid because a basic program requirement has not been met. Once the correct social security number has been inserted in the file, however, the family is eligible for the same $325 payment. Table 7 shows the impact of some of these "technical errors" on the official error rate, using October 1980-March 1981 data.

Finally, the official error rate includes both agency and client errors. Table 8 shows the percent of total error cases that can be attributed to either the agency or the client as well as the total number of error cases on which these percentages are based. Agency errors can include simple arithmetical mistakes, incorrect policy applications, and inadequate verification. Client errors may be the result of mistakes in understanding, failure to report information on a timely basis or outright recipient fraud. It is not possible to distinguish between these various causes of error using existing quality control data.

TABLE 6.—MAJOR TYPES OF ERROR BY STATE, OCTOBER 1981–MARCH 1982, PROGRAM AREA IN ERROR, TOTAL ERROR CASES AS A PERCENT OF TOTAL CASES [1]

State	Total number of sample cases	Percent of total cases				
		Basic program requirements [2]	Resources [3]	Need-income [4]	Need-requirements [5]	Other
Total [6]	38,712	4.0	0.5	5.5	2.2	0.7
Alabama	1,085	2.2	0.5	4.2	0.1	0.4
Alaska	153	5.9	3.9	7.2		1.3
Arizona	359	6.4	1.4	6.1	2.2	0.6
Arkansas	537	1.3	0.7	5.0		0.7
California	1,256	3.4	0.1	4.9	1.0	0.3
Colorado	434	5.1	0.7	6.9	0.2	0.7
Connecticut	840	5.0	2.7	4.6	0.4	0.1
Delaware	152	4.6	0.7	8.6		
District of Columbia	446	11.7	0.2	11.9	0.2	2.0
Florida	1,296	3.1	0.6	5.3	0.8	0.4
Georgia	1,229	2.0	0.2	7.5		0.7
Hawaii	289	3.5	1.4	6.6	4.5	0.7
Idaho	157	1.9	0.6	6.4	4.5	0.6
Illinois	1,184	2.9		5.1	0.2	
Indiana	1,030	1.6	0.5	3.7	5.4	0.1
Iowa	618	1.8	1.0	5.0	0.5	0.5
Kansas	386	1.6	0.3	3.6	1.0	0.3
Kentucky	1,081	2.8	0.5	2.9		0.8
Lousiana	1,192	1.8	0.6	7.3		0.7
Maine	294	2.0		3.1		1.0

TABLE 6.—MAJOR TYPES OF ERROR BY STATE, OCTOBER 1981–MARCH 1982, PROGRAM AREA IN ERROR, TOTAL ERROR CASES AS A PERCENT OF TOTAL CASES [1]—Continued

State	Total number of sample cases	Percent of total cases: Basic program requirements [2]	Resources [3]	Need-income [4]	Need-requirements [5]	Other
Maryland	1,189	3.4	0.2	5.4	....	0.4
Massachusetts	1,174	4.1	1.3	6.4	0.7	0.5
Michigan	1,202	4.7	1.2	5.7	12.1	2.4
Minnesota	830	1.4	0.2	3.6	0.4	0.2
Mississippi	953	0.8	0.4	3.3	0.7	0.3
Missouri	1,257	3.3	0.1	3.8	0.5	0.2
Montana	172	....	1.2	1.7	0.6	1.2
Nebraska	208	6.3	1.4	4.8	....	1.0
Nevada	168	0.6	....	1.2	....	....
New Hamphsire	148	2.7	0.7	8.8	6.1	....
New Jersey	1,194	5.4	0.8	5.0	0.1	0.2
New Mexico	318	3.1	0.9	5.0	4.1	0.9
New York	1,281	7.1	0.2	5.7	8.0	1.9
North Carolina	1,187	0.4	0.3	6.5	....	0.2
North Dakota	171	....	0.6	5.3	1.2	....
Ohio	1,270	4.4	0.6	4.6	0.1	0.7
Oklahoma	808	1.5	0.2	2.5	....	....
Oregon	524	1.9	0.2	5.7	0.2	0.8
Pennsylvania	1,262	6.8	0.9	5.5	0.6	0.1
Puerto Rico	1,115	3.9	0.6	8.8	3.3	0.9
Rhode Island	296	1.4	1.7	3.4	....	0.3
South Carolina	1,204	3.9	0.1	8.5	....	0.9

TABLE 6.—MAJOR TYPES OF ERROR BY STATE, OCTOBER 1981–MARCH 1982, PROGRAM AREA IN ERROR, TOTAL ERROR CASES AS A PERCENT OF TOTAL CASES [1]—Continued

State	Total number of sample cases	Percent of total cases				
		Basic program requirements [2]	Resources [3]	Need-income [4]	Need-requirements [5]	Other
South Dakota	172	1.2	1.2	5.2	5.2	
Tennessee	1,088	3.0	0.5	3.8		0.4
Texas	1,233	2.4	0.2	7.4		0.5
Utah	159	8.2		5.7	0.6	0.6
Vermont	145	2.8		4.1	7.6	
Virgin Is	0					
Virginia [7]	1,125	1.8	0.5	4.2		0.4
Washington	942	3.9	0.7	4.7	0.4	0.2
West Virginia	476	2.1	0.8	7.8	2.7	0.4
Wisconsin	1,249	4.8	0.3	8.5	0.4	0.6
Wyoming	174	1.7	1.7	2.3	0.6	0.6

---

[1] Includes ineligible and eligible cases receiving incorrect payments.

[2] Basic program requirements: age, school attendance, living with a specified relative, deprivation (incapacity, continued absences, unemployment); WIN program registration, citizenship and alienage, residence, social security number, child support (assignment and cooperation), and monthly report.

[3] Resource items: real property; life insurance; bank deposits or cash on hand; motor vehicle; other.

[4] Need-income items: earned income, work incentive exemptions; mandatory deductions; work-related expenses; deemed income disregards; RSDI benefits; veterans benefits; unemployment compensation; workmen's compensation; support payment made to IV–D agency contributions; non-earned income disregards; deemed income.

[5] Need requirement items: shelter only, fuel and/or utilities only; basic budgetary allowance(s) other than shelter, fuel and utilities; shelter combined with fuel and/or utilities; shelter and other basic budgetary allowances (excluding fuel and utilities); all basic budgetary allowances (excluding fuel and utilities); all basic budgetary allowances; special diet; transportation; child care; other.

[6] Percentages are weighted by the proportion of each State's average caseload to the national average.

[7] Data incomplete.

Source: Department of Health and Human Services, Social Security Administration, Office of Family Assistance, January 1986.

TABLE 7.—COMPARISON OF OFFICIAL AFDC ERROR RATES WITH PAYMENT ERROR RATES EXCLUDING PROCEDURAL ERRORS, FISCAL YEAR 1982

State	Official error rate	Rate excluding procedural errors [1]	Difference [2]
U.S. total	6.9	5.7	1.2
Alabama	5.3	4.4	0.9
Alaska	12.1	11.8	0.3
Arizona	11.6	10.3	1.3
Arkansas	7.0	6.8	0.2
California	6.0	4.3	1.7
Colorado	6.6	5.6	1.0
Connecticut	6.4	6.0	0.4
Delaware	11.9	9.8	2.0
District of Columbia	17.1	12.9	4.2
Florida	6.0	5.6	0.5
Georgia	5.1	4.9	0.3
Guam			
Hawaii	8.2	7.1	1.1
Idaho	5.4	5.2	0.3
Illinois	8.2	7.1	1.1
Indiana	3.9	3.5	0.4
Iowa	4.5	4.2	0.3
Kansas	2.8	2.7	0.1
Kentucky	3.6	3.0	0.5
Louisiana	6.2	5.6	0.6
Maine	4.1	3.4	0.7
Maryland	8.2	7.2	1.0
Massachusetts	7.4	6.9	0.5
Michigan	8.2	7.5	0.7
Minnesota	3.0	2.8	0.3
Mississippi	4.7	4.6	0.2
Missouri	4.8	4.4	0.4
Montana	2.5	2.5	0.1
Nebraska	9.6	8.7	0.9
Nevada	1.3	1.3	0.0
New Hampshire	5.9	5.7	0.1
New Jersey	7.3	5.3	2.1
New Mexico	10.5	9.7	0.8
New York	8.0	6.6	1.4
North Carolina	3.3	3.0	0.3
North Dakota	1.9	1.9	0.0
Ohio	7.6	5.3	2.3
Oklahoma	3.8	3.3	0.5
Oregon	7.1	5.9	1.1
Pennsylvania	8.5	7.1	1.5
Puerto Rico	8.9	8.3	0.6

TABLE 7.—COMPARISON OF OFFICIAL AFDC ERROR RATES WITH PAYMENT ERROR RATES EXCLUDING PROCEDURAL ERRORS, FISCAL YEAR 1982—Continued

State	Official error rate	Rate excluding procedural errors [1]	Difference [2]
Rhode Island	5.7	4.7	1.0
South Carolina	8.9	7.3	1.6
South Dakota	3.7	3.5	0.2
Tennessee	4.9	3.9	1.0
Texas	8.4	7.6	0.8
Utah	5.0	4.5	0.5
Vermont	4.5	4.4	0.1
Virgin Islands	4.6	3.7	0.8
Virginia	4.1	3.9	0.2
Washington	6.4	6.0	0.4
West Virginia	8.2	6.8	1.4
Wisconsin	6.5	4.6	1.9
Wyoming	4.8	4.5	0.2

[1] Procedural errors include SSN, WIN, and assignment and cooperation of child support rights.

[2] May not add due to rounding.

Source: Department of Health and Human Services, Social Security Administration, Office of Family Assistance.

TABLE 8.—AGENCY AND CLIENT ERRORS, ERROR CASES AS A PERCENT OF TOTAL AFDC ERROR CASES, APRIL–SEPTEMBER 1984 [1]

State	Total number of error cases	Percent of total error cases attributed to [2]—	
		Agency	Client
U.S. Total [2]	4,068	55.3	44.7
Alabama	50	36.0	64.0
Alaska	32	65.6	34.4
Arizona	79	48.1	51.9
Arkansas	42	40.5	59.5
California	111	65.8	34.2
Colorado [3]			
Connecticut	70	47.1	52.9
Delaware	21	71.4	28.6
District of Columbia	82	39.0	61.0
Florida	95	44.2	55.8
Georgia	129	46.5	53.5
Guam	32	84.4	15.6
Hawaii	45	53.3	46.7
Idaho	25	52.0	48.0
Illinois	122	51.6	48.4
Indiana	157	65.0	35.0
Iowa	62	64.5	35.5
Kansas	49	38.8	61.2

TABLE 8.—AGENCY AND CLIENT ERRORS, ERROR CASES AS A PERCENT OF TOTAL AFDC ERROR CASES, APRIL–SEPTEMBER 1984 [1]—Continued

State	Total number of error cases	Percent of total error cases attributed to [2]—	
		Agency	Client
Kentucky	84	57.1	42.9
Louisiana	145	49.0	51.0
Maine	29	48.3	51.7
Maryland	103	24.3	75.7
Massachusetts	163	50.9	49.1
Michigan	267	53.6	46.4
Minnesota	60	56.7	43.3
Mississippi	44	43.2	56.8
Missouri [3]			
Montana	18	44.4	55.6
Nebraska	31	74.2	25.8
Nevada	4	75.0	25.0
New Hampshire	33	57.6	42.4
New Jersey	123	35.0	65.0
New Mexico	45	44.4	55.6
New York	283	71.7	28.3
North Carolina	72	54.2	45.8
North Dakota	13	76.9	23.1
Ohio	137	54.7	45.3
Oklahoma	33	54.5	45.5
Oregon	52	53.8	46.2
Pennsylvania	189	58.7	41.3
Puerto Rico	130	60.0	40.0
Rhode Island	23	56.5	43.5
South Carolina	123	44.7	55.3
South Dakota	8	37.5	62.5
Tennessee	83	48.2	51.8
Texas	86	31.4	68.6
Utah	31	48.4	51.6
Vermont	30	80.0	20.0
Virgin Islands	12	41.7	58.3
Virginia	56	66.1	33.9
Washington	103	49.5	50.5
West Virginia	62	48.4	51.6
Wisconsin	179	69.3	30.7
Wyoming	11	72.7	27.3

---

[1] Includes ineligible and eligible cases receiving incorrect payments.
[2] Percentages weighted by the proportion of each State's average caseload to the National average.
[3] Data incomplete.

Source: Office of Family Assistance, Social Security Administration, January, 1986.

PART 2

TRUST FUNDS (OR SPECIAL FUNDS) WITHIN THE JURISDICTION OF THE COMMITTEE ON WAYS AND MEANS

Section 1. Black Lung Disability Trust Fund
Section 2. Airport and Airway Trust Fund
Section 3. Highway Trust Fund
Section 4. Aquatic Resources Trust Fund
Section 5. Superfunds
    (A) Hazardous Substance Response Trust Fund
    (B) Post-closure Liability Trust Fund
Section 6. Inland Waterways Trust Fund
Section 7. Land and Water Conservation Fund
Section 8. Wildlife Restoration Projects
Section 9. Reforestation Trust Fund
Section 10. Deep Seabed Revenue Sharing Trust Fund
Section 11. Tax Court Judges Survivors Annuity Fund
Section 12. Railroad Retirement System
Section 13. Railroad Unemployment Compensation System

BLANK PAGE

Section 1. Black Lung Disability Trust Fund

LEGISLATIVE HISTORY AND JURISDICTION

National attention was focused on the working conditions of coal miners following a West Virginia coal mine accident in 1968 that killed 78 workers. Congressional hearings the following year on reform of the coal mine safety laws also examined the problems of coal workers' pneumoconiosis, or black lung disease. The Federal Coal Mine Health and Safety Act of 1969 established Federal minimum standards for mines in order to protect the safety and health of coal miners. In addition, title IV of the act provided benefits for miners totally disabled by black lung disease and for dependents of miners who had died from the disease or were totally disabled from the disease at death.

The 1969 act was the first effort, at any level of government, to provide benefits exclusively to the victims of a single occupational disease. This was also the first time the Federal Government took major responsibility in the traditionally State-administered area of workers' compensation. The 1969 act was amended by the Black Lung Benefits Act of 1972, the Black Lung Benefits Reform Act of 1977, the Black Lung Revenue Act of 1977, and the Black Lung Benefits Revenue Act of 1981.

The statutory provisions of the act as amended are contained in 30 U.S.C. sections 901 et seq. and in the Internal Revenue Code of 1954 sections 4121, 4218, 4951, 4952, 4953, and 9501, et seq.

There are two distinct programs of black lung benefits under title IV: part B and part C. The part B program is financed by Federal general revenues and is administered by the Social Security Administration (SSA). Benefits under part B are payable only for claims filed on or before June 30, 1973, (December 31, 1973, in the case of survivors) and thus no new beneficiaries can be added to the rolls. The part C program is administered by the Department of Labor (DOL) and generally applies to claims filed after June 30, 1973. Benefits under part C are paid either by the "responsible" coal mine operator or by the Black Lung Disability Trust Fund.

The Black Lung Disability Trust Fund was created in 1978 pursuant to the Black Lung Benefits Revenue Act of 1977 (Public Law 95-227). In 1981, the statutory provisions of the Black Lung Disability Trust Fund were transferred to the Internal Revenue Code by the Black Lung Benefits Revenue Act of 1981 (Public Law 97-119).

The Committee on Ways and Means has jurisdiction over the excise tax on coal, the structure and administration of the Black Lung Disability Trust Fund, the expenditure purposes of the Trust Fund and tax provisions as to the coal mine operators' self-insurance trusts. The Committee on Education and Labor has jurisdiction over eligibility and evidentiary standards, claims adjudication, and related benefit provisions.

Benefit Structure

Generally, the Black Lung Disability Trust Fund ("Trust Fund") is required to pay benefits with respect to part C claims (claims filed *after* June 30, 1973) in which the miner's last coal mine employment was *before* January 1, 1970. Part B claims (claims filed on or *before* June 30, 1973) are generally paid by the Social Security Administration out of the general revenues of the Treasury, not the Trust Fund. If a miner's last coal mine employment was *after* January 1, 1970, and the claim was filed *after* June 30, 1973, benefits are paid by the coal mine operator judged to be responsible, the so-called "responsible operator," not the Trust Fund. However, the Trust Fund pays benefits if there is no responsible operator among the miner's employers or if the responsible operator is in default. Under the Black Lung Benefits Revenue Act of 1981, liability for certain claims which had been denied prior to March 1, 1978, but which were reviewed and approved under the liberalized eligibility criteria of the Black Lung Benefits Reform Act of 1977, was also transferred to the Trust Fund. When an operator is determined to be responsible for the payment of benefits which in fact have been paid out of the Trust Fund, then the operator is obligated to reimburse the Trust Fund for those amounts plus interest.

The expenses of the Department of Labor and the administrative expenses of the Department of Health and Human Services for the claims program financed through the Trust Fund are paid out of the trust fund monies. The Trust Fund also bears the cost of its own administration as well as the costs of administering the collection of the excise tax on coal.

A claim under part B or C must meet three general conditions in order to be approved for black lung disability benefits: (1) the miner must have (or, if deceased, have had) pneumoconiosis; (2) the miner must be totally disabled by the disease (or must have been totally disabled at the time of death); and (3) the pneumoconiosis must have arisen out of coal mine employment. There are certain statutory presumptions that are used to establish eligibility.

TABLE 1.—NUMBER OF PART C BENEFICIARIES [1]

[Calendar years 1979, 1980, 1983, 1984, September 1985]

Class of beneficiary	1979	1980	1983	1984	1985
Primary beneficiaries:					
Miners	30,739	52,922	64,203	62,785	61,401
Widows	19,366	26,739	35,188	36,495	37,559
Others	605	1,189	809	854	882
Total primary beneficiaries	50,710	80,850	100,200	100,134	99,842
Dependents of primary beneficiaries:					
Dependents of miners	31,184	54,624	NA	NA	NA
Dependents of widows	1,678	2,747	NA	NA	NA
Dependents of others	315	852	NA	NA	NA
Total dependents	33,177	58,223	62,557	62,982	61,010
All beneficiaries	83,887	139,073	162,757	163,116	160,852

[1] Does not include those part B beneficiaries whose medical benefits are paid under part C.

Source: Department of Labor.

NA—Not available.

TABLE 2.—NUMBER OF PART B BENEFICIARIES

[December 1970–80, September 1983, 1984, and 1985]

Class of beneficiary	1970	1974	1980	1983	1984	1985
Miners	43,921	169,097	120,235	95,587	87,385	79,443
Widows	24,889	134,700	146,603	143,449	141,382	138,902
Others	43,166	183,419	132,639	99,349	89,163	80,476
Total	111,976	487,216	399,477	338,385	317,930	298,821

Source: Social Security Bulletin.

The basic monthly benefit for a miner totally disabled from black lung or a survivor is 37½ percent of the monthly pay of a Federal employee in grade GS–2, step 1. A totally disabled miner or survivor with one dependent receives the basic monthly benefit rate increased by 50 percent. If the miner or survivor has two dependents, the benefit rate is increased by 75 percent, and if there are three or more dependents, the rate is increased by 100 percent. Benefit rates are revised each year to reflect any revision in Federal pay scales. The rates as of January 1985 were:

Miner or one survivor—$328.20.
Miner or survivor with one dependent—$492.30.
Miner or survivor with two dependents—$574.30.
Miner or survivor with three or more dependents—$656.40.

Black lung benefits are not taxed by the Federal Government, although States may do so.

Reductions in black lung benefits or the offset of black lung benefits against other benefits are subject to significantly different rules depending upon whether the benefits are paid under part B or part C. Under part B, black lung benefits are reduced by any payments received under the workers' compensation, unemployment compensation or disability insurance laws of a State if such payments are for death or disability due to pneumoconiosis. If the State payments are made for reasons other than pneumoconiosis, black lung benefits are not reduced. Part C benefits are reduced for State or Federal workers' compensation (but *not* for unemployment compensation or disability insurance) in the same manner.

Under part B, miners or their parents, brothers or sisters (but not their spouse or children) have always been subject to an earnings test which causes their black lung benefits to be reduced as defined in section 203 of the Social Security Act (the same earnings test for social security recipients). This excess earnings offset does *not* apply to benefits payable under part C, unless the claim for benefits was filed on or after January 1, 1982.

Under part B, black lung benefits are not considered workers' compensation payments and therefore are not considered in calculating any social security disability payments under Title II of the Social Security Act. However under part C, exactly the opposite is the case, and black lung benefits must be taken into account.

Survivor benefits under the black lung program are not reduced as a result of social security survivor benefits.

A miner (but not a miner's family or survivors) receiving black lung cash benefits is eligible for medical and rehabilitation benefits including treatment and/or medications prescribed for the miner's black lung disease and directly associated illnesses. Medical costs are paid either by a responsible coal mine operator or by the Trust Fund, whichever is responsible for payment of regular monthly benefits.

FINANCING MECHANISM

A manufacturers' excise tax is imposed on domestically mined coal (other than lignite) which is sold or used by the producer (Internal Revenue Code sections 4121 and 4218). The pre-1982 rate of tax was the lesser of (1) 50 cents per ton for coal from underground mines and 25 cents per ton for coal from surface mines, or (2) 2 percent of the price for which the coal was sold.

A temporary increase of these excise taxes was enacted in 1981 (Public Law 97-119), effective January 1, 1982. As a result, the current tax is the lesser of (1) $1 per ton for coal from underground mines and 50 cents per ton for coal from surface mines, or (2) 4 percent of the price for which the coal is sold. The temporary tax increase will expire on January 1, 1996, or earlier, if the Black Lung Disability Trust Fund becomes solvent (i.e., the tax will revert to pre-1982 levels).

Amounts equal to the revenues from this excise tax (plus any revenues from the penalty tax on taxable expenditures from a coal mine operator self-insurance trust, described below) are automatically appropriated to the Black Lung Disability Trust Fund.

A responsible operator may fund its liability for black lung benefits through deductible contributions to a qualified tax-exempt trust (code section 501(c)(21)), called coal mine operators' self-insurance trusts. Misuse of a trust due to self-dealing (code section 4951) and expenditures for an improper purpose (code section 4953), trigger certain penalty excise taxes. Amounts collected under these provisions, which in the past have been very small, are appropriated to the Black Lung Disability Trust Fund.

FINANCIAL STATUS OF TRUST FUND

The Trust Fund has been operating at a deficit since its establishment in 1978. As of fiscal year 1985, the Trust Fund has paid out over $4.4 billion in cash benefits and medical expenses, along with approximately $285 million in administrative costs. It also has accumulated over $1 billion in interest charges. At the same time, the excise tax on coal has generated only approximately $2.9 billion in revenues leaving a cumulative deficit of $2.8 billion through fiscal year 1985. This deficit has been financed with advances from the general revenues of the U.S. Treasury which must be repaid from future trust fund revenues.

Table 3 shows the status of the Trust Fund as of the end of fiscal year 1985.

TABLE 3.—STATUS OF BLACK LUNG DISABILITY TRUST FUND

[In thousands of dollars]

Fiscal year	Income			Outgo		
	Coal tonnage tax	Interest	Advances from general fund	Benefit payments	Administrative expenses	Interest on advances
Actual:						
1978	92,050	1,192	18,925	76,797	35,346	....
1979	221,614	122	400,809	582,038	32,149	7,740
1980	272,262	....	535,837	721,746	34,238	52,497
1981	236,635	....	554,778	644,288	35,585	109,488
1982	490,746	254	283,002	578,244	35,789	160,597
1983	493,685	321	357,773	623,129	34,936	193,273
1984	518,464	450	346,063	594,213	36,551	234,503
1985	581,390	573	335,545	583,422	40,229	274,751
Total	2,906,846	2,912	2,832,732	4,403,877	284,823	1,032,849

Source: Fourth Annual Report on the Financial Condition and Results of Operations of the Black Lung Disability Trust Fund (Department of Treasury, September 30, 1981), and Budget of the U.S. Government, Appendixes for fiscal years 1984, 1985, 1986, and 1987.

As recently as January 1984, estimates of the projected status of the Black Lung Disability Trust Fund indicated that it was expected to attain total solvency by 2007, and cease borrowing from the Treasury by 1997. However, the Administration now projects that, with no change in law, the Trust Fund's cumulative debt to the Treasury will exceed $30 billion by the year 2010.

Section 2. Airport and Airway Trust Fund

LEGISLATIVE HISTORY

1970 Act and 1971 Amendment

The Airport and Airway Trust Fund was established as of July 1, 1970, by the Airport and Airway Revenue Act of 1970 (Title II of the Airport and Airway Development Act of 1970, Public Law 91-258). The 1970 Act provided that new and increased aviation user taxes were to be deposited into the Trust Fund and, with interest earned on the deposits, were to be available to meet specified airport and airway obligations of the United States incurred under Title I of the 1970 Act, as it was in effect on the date of enactment. Amounts in the Trust Fund were available for making specified expenditures, as provided in appropriations acts, until July 1, 1980.

The 1970 Act authorized Trust Fund expenditures for the maintenance and operation of air navigation facilities, qualified airport planning and construction purposes, airway facilities and equipment, research and development, safety, and related departmental administrative expenses. However, a 1971 amendment (Public Law 92-174) to Title I of the 1970 Act removed the authority for spending Trust Fund monies for maintenance and operation of the airway system. This amendment also limited the authority for meeting administrative costs from the Trust Fund to only such administrative expenses related to the remaining authorized purposes.

1973 Amendment

A 1973 amendment (Public Law 93-44) to Title I of the 1970 Act increased the authorization levels for airport grants for fiscal years 1974 and 1975, increased the Federal share for certain airport grants and safety and security equipment costs, and amended the definition of airport development to specifically include security equipment required under regulations of the Department of Transportation.

1976 Amendment

The Airport and Airway Development Act Amendments of 1976 (Public Law 94-353) further amended Title I of the 1970 Act to include several additional expenditure categories to be authorized from the Trust Fund. The new expenditure categories were: snow removal equipment; noise suppressing equipment; construction of physical barriers and landscaping for the purpose of reducing the effect of aircraft noise in areas adjacent to public airports; acquisition of land or property interest for airport noise control purposes; airport terminal development (the public, nonrevenue-producing areas, including baggage facilities and passenger moving equipment); and specified amounts for maintenance of airway facilities. Thus, the 1971 prohibition against authorizing airway operating and maintenance costs from the Trust Fund was partially removed by the 1976 amendment. In addition, the 1976 amendment provided authorization levels for airport grants and other existing Trust Fund expenditure programs through fiscal year 1980, and increased the Federal share for certain airport grants for fiscal years 1977 and 1978.

The Committee on Ways and Means offered a Committee amendment as Title III to the 1976 Act Amendments which amended the Trust Fund language to conform it to the authorization provisions approved by the Committee on Public Works and Transportation and to permit expenditures from the Fund to be made until October 1, 1980 (instead of July 1, 1980). The Committee on Ways and Means initially declined to allow expenditures from the Trust Fund for terminal facilities; however, this expenditure purpose was eventually approved by a separate vote of the House.

1979 Amendment

The Aviation Safety and Noise Abatement Act of 1979 (Public Law 96-193) further amended Title I of the 1970 Act to authorize Trust Fund appropriations for airport noise compatibility planning programs and airport noise compatibility grants and to increase the airport development authorization amounts for fiscal year 1980. In addition, the Act amended the Trust Fund language (section 208(f)(1)(A) of the Airport and Airway Revenue Act of 1970; 49 U.S.C. 1742(f)(1)(A)) to conform to the 1979 amendments.

1980 Amendment

In 1980, Public Law 96-298 was enacted to extend the aviation excise taxes and require the deposit of the revenues from these taxes into the Trust Fund from July 1, 1980 until October 1, 1980. In 1980, the Committee on Ways and Means also reported the Airport and Airway Revenue Act of 1980 as a Committee amendment, to be offered as Title II to H.R. 6721, in order to extend aviation excise taxes and the Trust Fund until October 1, 1985. However, the bill was not considered by the House prior to the adjournment of the 96th Congress. As a result, expenditures from the Trust Fund were not authorized after September 30, 1980; further, on October 1 many of the aviation excise taxes automatically expired or were reduced, and the deposit of the remaining aviation excise tax revenues into the Trust Fund was terminated.

1981 Amendment

In 1981, the Committee on Ways and Means approved a technical and conforming amendment to the Trust Fund provisions in order to allow expenditures to be made from the Trust Fund through September 30, 1981. The Committee amendment was included in H.R. 4182, the fiscal year 1981 Airport Development Authorization Act, which was approved by the House in July 1981. The provisions of H.R. 4182 were later enacted as part of the Omnibus Budget Reconciliation Act of 1981, Public Law 97-35.

Also in 1981, the House Committee on Public Works and Transportation approved H.R. 2643 to set funding levels for airport and airway programs for fiscal years 1982 and 1983. At the adjournment of the first session of the 97th Congress, a financing title for the bill was pending in the Committee on Ways and Means.

1982 Amendment

On May 12, 1982, the Committee on Ways and Means reported H.R. 4800 as a financing title for H.R. 2643; the bill extended and reinstated various aviation excise taxes and the Airport and Airway Trust Fund for the period July 1, 1982, through December 31, 1983.

Title V of the Tax Equity and Fiscal Responsibility Act of 1982 (P.L. 97-248) contained the provisions of the Airport and Airway Improvement Act of 1982, authorizing spending out of the Trust Fund for airport programs at higher levels over the period fiscal years 1982 through 1987. Aviation excise tax provisions (similar to those in H.R. 4800) were also included in title III of TEFRA to raise sufficient revenue to fund the airport and airway spending authorized in title V of the Act. The various aviation excise taxes were extended and reinstated, some at higher tax rates, for the period September 1, 1982, through December 31, 1987 (see following table). Three modifications were made in the passenger ticket tax and an exemption was provided from the fuel and ticket taxes for helicopters used in timber operations or hard mineral exploration or development where the Federal aviation system and Federal-aid airports are not utilized. The Airport and Airway Trust Fund was extended through fiscal year 1987 and its expenditure purposes were updated to include the changes made in title V. (Adjustments in certain of the airport and airway spending programs were subsequently made in H.R. 6211 (P.L 97-424), and conforming cross references in the Trust Fund provisions were also included.) The Trust Fund provisions were also transferred to the Internal Revenue Code, effective September 1, 1982.

1984 Amendment

The Deficit Reduction Act of 1984 (Public Law 98-369) expanded the previous exemptions from the aircraft fuels and air transportation taxes for helicopters not using federally aided airports or Federal airway facilties to include helicopters employed in the exploration and development of oil and gas (effective on April 1, 1984).

FINANCING MECHANISM

The Airport and Airway Trust Fund is financed by several aviation excise taxes. As noted above, these excise taxes were reimposed or increased in TEFRA of 1982. Generally these taxes are the same as in effect before October 1, 1980, except that the aviation fuel taxes are now at higher rates. The following table sets forth the taxes and rates under prior law and those presently in effect:

TABLE 1.—SCHEDULE OF AIRPORT AND AIRWAY TRUST FUND EXCISE TAXES

Tax (and code section)	Prior law (July 1, 1970–Oct. 1, 1980) rate	Rate Oct. 1, 1980–Aug. 31, 1982	Present law rate (Sept. 1, 1982–Dec. 31, 1987)
Air passenger ticket tax (sec. 4261(a), (b) and (d)) [1] [2].	8 percent	5 percent	8 percent.
Air freight waybill tax (sec. 4271).	5 percent	0	5 percent.
International departure tax (sec. 4261(c)).	$3 per person	0	$3 per person.
Fuels tax for noncommercial (general) aviation (sec. 4041(c)).[2].	7 cents per gallon.	[3] 4 cents per gallon.	12 cents per gallon on gasoline; 14 cents per gallon on other fuels.
Aircraft use tax [2]	([4])	0	0.
Aircraft tires tax (sec. 4071)[5]	5 cents per pound.	4.875 cents per pound.	[5] 4.875 cents per pound.
Aircraft tubes tax (sec. 4071)[5]	10 cents per pound.	10 cents per pound.	[5] 10 cents per pound.

[1] Air transportation between the United States and a foreign station which is not more than 225 miles from the nearest point in the continental United States, as well as between two such foreign stations, generally is subject to this tax where payment for the travel is made in the United States. The 1982 amendments permit the Secretary to waive the 225-mile zone rule if Canada or Mexico enter into a "qualified agreement". This tax does not apply to transportation between the United States and other foreign stations where payment is made outside the United States, nor does it apply to the U.S. portions of certain uninterrupted international air transportation (where the layover does not exceed 12 hours). Also, the air passenger ticket tax does not apply to the portion of flights to or from Alaska and Hawaii which are not made over the United States (Code sec. 4262).

[2] The tax does not apply to aircraft owned by a tax-exempt museum operated exclusively for the procurement, care, and exhibition of World War II aircraft (defined in sec. 4041(h)). Certain helicopters are exempt under the 1982 and 1984 amendments.

[3] The 7 cents a gallon tax on jet fuel expired on October 1, 1980; the 4 cents a gallon tax applied only to aviation gasoline from Oct. 1, 1980 through August 31, 1982.

[4] An annual tax of two parts: (1) a $25 annual per plane tax, plus (2) a weight tax of 3½ cents per pound for turbine-power (jet) aircraft and 2 cents per pound for nonturbine-powered aircraft for each pound in excess of 2,500 pounds of "maximum certificated takeoff weight." However, for the period July 1, 1980–September 30, 1980, the use tax was one-fourth the applicable annual rates.

[5] Under the provisions of H.R. 6211 (PL 97–424), the taxes on inner tubes and non-highway tires were repealed, effective Jan. 1, 1984.

The passenger ticket tax applies to air passenger transportation within the United States, while the $3 per passenger international departure tax applies to flights abroad beginning in the United States and to flights to and from Alaska and Hawaii. The freight waybill tax applies to the transportation of property by air which begins and ends in the United States. Aircraft not subject to these passenger or freight taxes are subject to the fuel taxes noted above; exemptions are provided for aviation fuels used on farms or used for farming purposes or by a State or local government or a nonprofit educational organization. Also, under the 1982 and 1984 Acts, certain helicopters are exempt from the fuels and ticket taxes if used in timber or hard mineral operations or oil and gas exploration or development where the Federal aviation system and Federal-aid airports are not used.

EXPENDITURE PURPOSES

The present Trust Fund statute authorizes obligations incurred under Title I of the 1970 Act, under the 1976 Act Amendments, under the 1979 Act amendments, under the Fiscal Year 1981 Authorization Act, or under the Airport and Airway Improvement Act of 1982, as such Acts were in effect on the date of enactment of the 1982 Act.

The Airport and Airway Trust Fund expenditure programs authorized under present law are generally as follows:

1. *Airport Development Aid Program (ADAP)—*

(a) *Airport planning*—Grants to planning agencies for airport system planning and public agencies for airport master planning; also, airport noise compatibility planning grants for air carrier airports eligible for terminal development costs.

(b) *Airport construction*—Construction, improvement or repair of a public airport (includes removal of airport hazards and construction of physical barriers and landscaping to diminish noise).

(c) *Airport terminal facilities*—Non-revenue-producing public-use areas which are directly related to movement of passengers and baggage at certificated air carrier airports having required safety and security equipment (include baggage facilities and passenger-moving equipment); does not include costs of construction of public parking facility for passenger automobiles or costs of construction, alteration, or repair of a hanger or any airport building unless used to house facilities or activities directly related to safety of persons at the airport. These facilities include multimodal terminal development and bond retirement for certain airports.

(d) *Land acquisition*—Includes land or property interests for airport noise control purposes.

(e) *Airport-related equipment*—Airport security equipment required by DOT regulations, snow removal equipment, noise suppressing equipment, navigation aids, and safety equipment required for airport certification.

(f) *Airport noise compatibility programs*—Includes soundproofing of public buildings; local governmental units are eligible for project grants as well as airports.

2. *Facilities and Equipment Program (F&E)*—Costs of acquiring, establishing, and improving air navigation facilities.

3. *Research, Engineering, Development, and Demonstration Program (R&D)*—Projects in connection with FAA research and development activities.

4. *Operations and Maintenance Programs (O&M)*—Flight check and maintenance of air navigation facilities; services provided under international agreements relating to the U.S. share of joint provision of air navigation services.

5. *Other costs*—Certain airline costs of international passenger security screening facilities.

MISCELLANEOUS

The Secretary of the Treasury is required to report to the Congress each year on the financial condition of the Trust Fund.

The Committee on Public Works and Transportation has jurisdiction over airport and airway development and improvement programs.

The statutory provisions establishing the Airport and Airway Trust Fund and governing its operations are located at section 9502 of the Internal Revenue Code.

FINANCIAL STATUS OF TRUST FUND

Table 2 is based on the Department of the Treasury's Annual Reports on the Trust Fund and the Appendix to the U.S. Budget for fiscal years 1979–1987, and it sets forth the Fund's receipts and outlays for fiscal years 1971 through 1987.

Table 2 also contains cash balances in the Trust Fund at the end of each fiscal year since 1971. However, it must be noted that large portions of the unexpended balance are committed to liquidate outstanding unfunded obligations and unexpended appropriations. Table 3 sets forth the balances remaining in the Fund after these commitments have been taken into account, called the uncommitted balances, for fiscal years 1977 through 1987.

TABLE 2.—STATUS OF AIRPORT AND AIRWAY TRUST FUND, FISCAL YEARS 1971 THROUGH 1987

[In millions of dollars]

Fiscal year	Receipts				Outlays	Cash balance in the fund [2]
	Excise taxes, net	Interest on investments	Other [1]	Total		
1971	563		621	1,184	287	897
1972	649		902	1,551	1,389	1,058
1973	758		69	828	699	1,187
1974	840	28		868	521	1,534
1975	962	96		1,058	579	2,013
1976	938	146		1,084	547	2,550
T.Q	277	1		278	92	2,736
1977	1,191	194		1,384	853	3,268
1978	1,326	219		1,545	1,115	3,698
1979	1,526	282		1,809	1,114	4,392
1980	1,874	400		2,274	1,224	5,442
1981	21	561		582	1,306	4,719
1982	133	542		674	1,512	3,882
1983	2,165	533		2,698	1,792	4,787
1984	2,499	546		3,045	1,392	6,441
1985	2,852	746		3,598	2,613	7,426
1986	2,954	763		3,717	2,193	8,949
1987	3,247			3,247	4,015	8,181

[1] Amounts appropriated from the general fund and unexpended balances of certain general fund accounts transferred to the Trust Fund.

[2] Large portions of the unexpended balance are committed to liquidate outstanding unfunded obligations (contract authority) and to liquidate unexpended appropriations. Also, funds equivalent to cumulative shortfalls below minimum annual obligation levels must be reserved for future expenditure.

Source: Appendix to the U.S. Budget for Fiscal Years 1979–1987.

TABLE 3.—AIRPORT AND AIRWAY TRUST FUND UNCOMMITTED BALANCES—FISCAL YEARS 1977 THROUGH 1987

Uncommitted balance end of fiscal year	Millions of dollars
1977	1,709
1978	2,182
1979	2,742
1980	3,686
1981	3,021
1982	2,156
1983	1,882
1984	2,234
1985	2,039
1986 (estimate)	2,673

TABLE 3.—AIRPORT AND AIRWAY TRUST FUND UNCOMMITTED BALANCES—FISCAL YEARS 1977 THROUGH 1987—Continued

Uncommitted balance end of fiscal year	Millions of dollars
1987 (estimate)	1,363

Source: Appendix to the U.S. Budget for Fiscal Years 1979–87.

Section 3. Highway Trust Fund

LEGISLATIVE HISTORY

Development of the Trust Fund and Highway Tax Revenue Sources

The Highway Trust Fund was established in 1956 (Public Law 84-627) for a 16-year period to provide a specific source of financing for the new Interstate System and continuation of other Federal aid-highway programs. The other highway-aid programs previously had been financed through the general fund. The 1956 legislation increased certain highway user taxes, primarily the taxes on motor fuels (from 2 cents a gallon to 3 cents a gallon), and imposed a new highway user tax on heavy highway motor vehicles. Initially, the Trust Fund was financed by the proceeds of the following highway user excise taxes: the manufacturers' taxes on gasoline for highway use, and tires, tubes, and tread rubber for highway use; a portion of the manufacturers' tax on trucks and buses (20 percent for 1957 and 50 percent thereafter, until changed to 100 percent by 1961 legislation); the tax on use of heavy highway motor vehicles; and the retailers' tax on diesel and special motor fuels for highway use.[1]

Section 209(b) of the Highway Revenue Act of 1956 included a declaration of congressional policy that (1) if it appears that the total receipts of the Trust Fund will be less than the total expenditures from the Trust Fund, or (2) if it appears that the distribution of the tax burden among the various classes of highway users or other beneficiaries of the highways is not equitable, then Congress is to enact legislation to bring about a balance of total Trust Fund receipts and expenditures or to make an equitable distribution of the tax burden. In addition, the 1956 Act provided for a 3-year highway cost allocation study (later extended for 2 additional years) to determine the fair distribution of highway-related user taxes among the various users.

---

[1] The Airport and Airway Revenue Act of 1970 created the Airport and Airway Trust Fund and deposited into it the manufacturers' and retailers' taxes on aviation gasoline, the manufacturers' taxes on tires and tubes of the types used on aircraft, and the retailers' taxes on aviation fuel, as well as the taxes on transportation of persons and property by air and on use of civil aircraft.

The Land and Water Conservation Act of 1965 created the Land and Water Conservation Fund and required that the taxes on special fuels and gasoline used as motorboat fuel be transferred to that fund from the Highway Trust Fund. In addition, P.L. 96-451 authorized transfers up to $20 million per year for fiscal years 1981-1983 of revenues from the motorboat fuel taxes to the National Recreational Boating Safety and Facilities Improvement Fund. This amount was increased to $45 million in the Highway Revenue Act of 1982, through fiscal year 1988. The Deficit Reduction Act of 1984 made the fund a separate account (Boating Safety Account) within the Aquatic Resources Trust Fund.

The manufacturers' excise taxes on lubricating oil for highway use and truck and bus parts were transferred into the Trust Fund as the result of 1966 legislation.

The Revenue Act of 1971 repealed the tax on trucks and buses with gross vehicle weight of 10,000 pounds or less.

The Energy Act of 1978 repealed the manufacturers' tax on buses as well as the excise taxes on bus parts, tires and tubes, tread rubber and lubricating oil.

Further changes were made in the Highway Trust Fund taxes in the Highway Revenue Act of 1982 and in the Deficit Reduction Act of 1984.

Section 209(g) of the Highway Revenue Act of 1956 also contained a provision—the "Byrd Amendment"—to prevent the Trust Fund from reaching a deficit position. In general, this provision required that if Trust Fund balances and estimated future receipts would be inadequate to cover obligations as they become due, a reduction of the Interstate System authorization in an amount sufficient to eliminate the difference would be required.

In 1959, the tax on motor fuels was temporarily increased for 1960 and 1961 from 3 cents a gallon to 4 cents a gallon in order to finance the authorized level of Trust Fund spending. The 4-cent rate was then extended in 1961 for the life of the Trust Fund (June 30, 1972, at that time). The 1961 legislation also increased the tax rates on tires, tubes and tread rubber, doubled the tax on heavy trucks, and transferred the entire 10-percent excise tax on trucks and buses to the Trust Fund (previously, only one-half of this tax went into the Trust Fund).[2] In addition, the 1961 Act extended the Highway Trust Fund for 3 months, from June 30, 1972, to September 30, 1972, again to provide additional revenues to meet projected highway program costs.

Highway legislation in 1966 also transferred the revenues from the existing manufacturers' excise taxes on lubricating oil and truck and bus parts to the Highway Trust Fund. Thus, with respect to the highway-related excise taxes, only the tax on automobiles did not go into the Trust Fund. (The 7-percent excise tax on automobiles was later repealed by the Revenue Act of 1971.)

Subsequent Extensions of Highway Trust Fund

The Highway Trust Fund and the related highway user taxes have been extended four times since 1961: a 5-year extension in the Federal-Aid Highway Act of 1970 (from September 30, 1972, through September 30, 1977), a 2-year extension in the Federal-Aid Highway Act of 1976 (through September 30, 1979), a 5-year extension in the Surface Transportation Assistance Act of 1978 (through September 30, 1984) and a 4-year extension in the Surface Transportation Assistance Act of 1982 (through September 30, 1988). The extensions, prior to 1982, were added by the Committee on Ways and Means as a separate title to a highway authorization bill of the Committee on Public Works and Transportation and involved only the extensions of existing highway user excise taxes and tax rates. (See reference to 1982 Act below).

In the 1978 Act, the operation of the "Byrd Amendment" was modified to require that when anticipated revenues are insufficient to cover expenditures, reductions will be made on a pro rata basis to all apportioned highway funds, rather than to interstate apportionments only (sec. 209(g) of the Highway Revenue Act of 1956). In addition, an exemption from the fuels taxes was provided for fuels used by qualified taxicabs until the end of 1980 (later extended as a 4-cents-per-gallon exemption until October 1, 1985). Finally, two studies were required: a cost allocation study was required to be conducted by the Department of Transportation with a final report to Congress by January 15, 1982, and a study of the highway excise tax structure was required to be conducted by the Department of Treasury with a final report to Congress by April 15, 1982.[3]

---

[2] The 1961 Act also repealed a scheduled transfer to the Trust Fund of one-half the 10-percent excise tax on automobiles.

Highway Revenue Act of 1982

The highway user taxes and trust fund provisions were substantially revised in the Surface Transportation Assistance Act of 1982 (H.R. 6211), Public Law 97-424. Titles I and II of the Act contained authorizations for highway programs at higher levels for four fiscal years, 1983 through 1986. Accordingly, Title V, the Highway Revenue Act of 1982, extended and revised the highway user taxes and the Trust Fund for an additional 4 years, through September 30, 1988 (see following table). Those taxes and the Trust Fund are terminated on October 1, 1988.

In revising and extending the Highway Trust Fund, its provisions were codified in the Internal Revenue Code (section 9503), effective January 1, 1983. Eligible Trust Fund expenditure purposes were revised to include spending authorized under the 1982 Act. Further, the anti-deficit provision ("Byrd amendment") was revised to reduce apportionments when unfunded authorizations exceed estimated receipts for the following 24-month period. Trust Fund estimates are required quarterly.

The 1982 Act increased the amount of revenue (from the motorboat fuels taxes) that can be transferred to the Boating Safety Fund from $20 million to $45 million per year. This fund was also extended through fiscal year 1988.

The Act established a new Mass Transit Account, within the Highway Trust Fund, financed from the revenue equivalent of 1 cent of the 9 cents per gallon tax on fuels. Amounts in the Mass Transit Account are available for making capital expenditures authorized under section 21(a)(2) of the Urban Mass Transportation Act. An anti-deficit provision similar to that described above for the Highway Trust Fund, also is to be applied except that unfunded authorizations may not exceed estimated receipts for the following 12 months.

Deficit Reduction Act of 1984

The Deficit Reduction Act of 1984 (Public Law 98-369) revised several of the specific taxes imposed under the 1982 Act. These modifications are noted in the footnotes to table 1.

FINANCING MECHANISM

The highway excise taxes deposited into the Highway Trust Fund, as revised under the 1982 and 1984 Acts and in effect until October 1, 1988, are set forth in the following table, in comparison with prior law (pre-1983). Special effective dates are set forth in the footnotes.

---

[3] The 1978 amendments were contained in Title V, the Highway Revenue Act of 1978, of the 1978 Surface Transportation Assistance Act (P.L. 95-599). The highway cost allocation study was submitted in May 1982 and the highway excise tax structure study was submitted in December 1982.

TABLE 1.—HIGHWAY EXCISE TAX RATES UNDER PRESENT AND PRIOR LAW

Tax	Prior (pre-1983) rate	Present (1982 and 1984 Acts) rate*
Gasoline (manufacturers)	4 cents per gallon	9 cents per gallon.[1]
Diesel fuel (retail)	4 cents per gallon	15 cents per gallon.[2]
Other motor fuels (retail)	4 cents per gallon	9 cents per gallon.[1]
Lubricating oil (manufacturers)	6 cents per gallon	No tax.[3]
Trucks and trailers (manufacturers) retail.	10 percent of manufacturers sale price.	12 percent of retail sale price.[4]
Truck parts and accessories (manufacturers).	8 percent of manufacturers sale price.	No tax.[3]
Tires (manufacturers)	Highway—9.75 cents per pound [5] Nonhighway—4.875 cents per pound.[5] Laminated—1 cent per pound.[5]	Graduated rates on highway tires over 40 pounds; no tax on other tires.[5]
Innertubes (manufacturers)	10 cents per pound	No tax.[5]
Tread rubber	5 cents per pound	No tax.[5]
Annual use tax on heavy trucks	$3 per 1,000 pounds, if GVW exceeds 26,000 pounds.[6]	55,000-up $100 plus $22 per 1,000 pounds in excess of 55,000 (maximum $550).[6]

*These excise taxes expire on Oct. 1, 1988.

[1] Effective April 1, 1983.

[2] The 1984 Act increased the tax from 9 cents per gallon to 15 cents per gallon, effective July 1, 1984. Owners of vehicles with a gross vehicle weight of 10,000 pounds or less are allowed an advanced rebate equal to an average estimated extra tax (above 9 cents per gallon) to be paid over the life of the vehicle.

[3] Effective January 7, 1983.

[4] Under the 1982 Act, this tax will not apply to trucks under 33,000 pounds or trailers under 26,000 pounds, effective Jan. 7, 1983. Roadrailer trailers are exempt from the tax under the 1982 Act. The tax is reduced to 6 percent in the case of piggyback trailers and semitrailers sold from July 18, 1984, through July 17, 1985. The rate increase on trucks and trailers subject to the tax and the shift to the retail level are effective Apr. 1, 1983.

[5] Effective Jan. 1, 1984, the 1982 Act repealed the taxes on inner tubes, tread rubber, and all tires other than highway tires weighing over 40 pounds. The tax on these highway tires is 15 cents per pound in excess of 40 pounds for tires between 40 and 70 pounds; $4.50 plus 30 cents per pound on the excess from 70 to 90 pounds; and $10.50 plus 50 cents per pound on the excess over 90 pounds.

[6] Effective July 1, 1984. The 1982 Act would have converted the tax to a graduated rate schedule based on taxable gross weight. However, the 1984 Act reduced the heavy vehicle use tax and increased the diesel fuel tax. The tax rate is reduced by 25 percent for logging vehicles that are used exclusively to haul harvested forested products to and from the forested site and are required to be registered for that purpose. An exemption is provided for vehicles which are used on the highways for 5,000 miles or less during the year. The exemption is increased to 7,500 miles for State-registered agricultural vehicles which haul farm commodities to or from the farm. The tax is prorated where vehicles are destroyed or stolen during the year. The tax is also prorated when the vehicle is initially placed in service after the first month of the taxable year.

Under present law, exemptions from the fuels taxes are provided for fuel used on a farm or for farming purposes, and fuel used in intercity, local or school buses. An exemption of 4 cents per gallon of the tax on fuel used by qualified taxicabs expired on September 30, 1985.[4] The 1982 Act also provided a full exemption for off-highway business use and for certain alcohol fuels. The exemption for gasohol was increased from 4 cents to 5 cents per gallon under the 1982 Act, and to 6 cents per gallon under the 1984 Act, effective from January 1, 1985, through December 31, 1992. In addition, buses are exempt from the 12-percent tax on trucks and trailers, and intercity, local and school buses are exempt from the taxes on tires, tubes, and tread rubber.[5] General exemptions are provided from these excise taxes for State and local governments and tax-exempt educational organizations. All exemptions (except gasohol) will terminate when the taxes expire on October 1, 1988.

---

[4] Under the 1982 Act, the fuel tax exemption for qualified taxicabs was extended from December 31, 1982 to September 30, 1984, and certain taxicabs were made eligible for the exemption for 1983 only (e.g., taxicabs prevented by local law from offering ridesharing). The 1984 Act extended the exemption through September 30, 1985.

[5] These exemptions for buses were adopted in the Energy Act of 1978 (Public Law 95-618) and extended in the 1982 Act. As noted earlier, the taxes on inner tubes and tread rubber are repealed effective January 1, 1984.

EXPENDITURES PURPOSES

Highway related programs

The statutory provisions governing expenditures from the Highway Trust Fund were revised in the 1982 Act to provide that amounts in the Trust Fund are to be available through September 30, 1988, as provided in appropriation acts, for meeting obligations incurred which are authorized by law to be paid out of the Trust Fund under the Highway Revenue Act of 1956, under Title I or II of the Surface Transportation Assistance Act of 1982, or thereafter, amounts for a general purpose authorized under these Acts as of December 31, 1982. As a result, the Trust Fund expenditure purposes are quite broad and include funding for:

—Federal-aid highways, including the interstate system, primary and secondary systems, urban systems, forest and public lands highways, scenic highways, overseas highways, etc.;
—Interstate resurfacing and repair;
—Bridge replacement;
—Highway safety research and development;
—Highway-related safety grants;
—Traffic control demonstration grants;
—Traffic control signal demonstration projects;
—Intermodal urban demonstration projects and mass transit grants;
—Carpools and vanpools grants;
—National Highway Traffic Safety Administration for a share of traffic safety programs; and
—Certain administrative costs of FHWA and NHTSA.

Mass Transit Account

The 1982 Act established a new Mass Transit Account within the Highway Trust Fund, consisting of the revenue equivalent to 1 cent per gallon of the tax on fuels and interest earnings on amounts in the account. Amounts are available through September 30, 1983, as provided in appropriation acts, for making capital expenditures under section 21(a)(2) of the Urban Mass Transportation Act of 1964 (including new projects).

Transfers to the Land and Water Conservation Fund and Boating Safety Account of the Aquatic Resources Trust Fund

Revenues equivalent to the 9 cents per gallon tax on fuels used in motorboats are transferred to these two funds through fiscal year 1988: up to $45 million per year is to be transferred to the Boating Safety Account so long as the fund balance does not exceed $45 million, with the balance (not to exceed $1 million per fiscal year) to the Land and Water Conservation Fund. (See separate discussion of these funds in sections 4 and 7 following.)

MISCELLANEOUS

The Secretary of the Treasury is required to report to the Congress each year on the financial condition of the Trust Fund. In addition, the Deficit Reduction Act of 1984 directs the Secretary of Transportation, in consultation with the Secretary of the Treasury, to conduct studies of the highway use tax and to report to the Congress by October 1, 1987. The studies relate to (1) whether vehicles of 80,000 pounds or more bear their fair share of the costs of the highway system, (2) the significance of the use tax for trans-border trucking operations, and (3) the feasibility of weight-distance truck taxes. The 1984 Act directs the Secretary of the Treasury to conduct a study of the effectiveness of the partial tax exemption for fuels used in qualified taxicabs and to report to the Congress with recommendations by January 2, 1985. In addition, the 1984 Act requires the Secretary of Transportation to report to the Congress by May 2, 1985, on the appropriate application and level of the excise tax on piggyback trailers. Neither report has been received before publication of this document.

The Committee on Public Works and Transportation has jurisdiction over the highway and mass transit spending programs.

The statutory provisions establishing the Trust Fund and governing its operations are located at section 9503 of the Internal Revenue Code.

FINANCIAL STATUS OF TRUST FUND

Table 2 shows the current status of the Fund. The table is based on the Budget of the U.S. Government for Fiscal Year 1987.

TABLE 2.—STATUS OF HIGHWAY TRUST FUND

[In thousands of dollars]

	1985 actual	1986 estimate	1987 estimate
Unexpended balance brought forward:			
U.S. securities (par)	10,840,227	11,942,635	12,660,107
Cash	981,315	942,390	
Balance of fund at start of year	11,821,542	12,886,025	12,660,107
Cash income during the year: Governmental receipts:			
From excise taxes:			
Gasoline tax	8,952,502	8,802,000	9,435,000
Truck, bus and trailer taxes	1,395,706	1,197,000	1,190,000
Tire, innertube, and tread rubber taxes	222,009	250,000	239,000
Diesel fuel taxes	2,558,615	2,618,000	−2,806,000
Lubricating oil taxes	−90		
Use tax on certain vehicles	378,592	406,000	430,000
Truck parts and accessories tax	965	1,000	
Transfers to boat safety			
Transfer to aquatic resources fund	−66,882	−72,000	−72,000
Refund of taxes	−426,464	−180,000	−214,000
Intrabudgetary transactions:			
Interest on investments	1,312,677	1,401,300	1,265,800
Total annual income	14,327,631	14,423,300	15,079,800
(Mass transit account)	(1,419,966)	(1,352,500)	(1,556,000)

TABLE 2.—STATUS OF HIGHWAY TRUST FUND—Continued

[In thousands of dollars]

	1985 actual	1986 estimate	1987 estimate
Cash outlays during the year:			
Federal Highway Administration appropriations:			
Federal-aid highways (liquidation of contract authorization)	12,584,323	13,759,800	13,476,400
Highway-related safety grants (liquidation of contract authorization)	11,548	9,791	11,044
Trust fund share of other highway programs	10,298	12,475	15,834
Highway safety research and development	9,750	8,243	9,203
Miscellaneous highway trust funds	1,506	3,889	3,521
Motor carrier safety grants	9,072	27,269	987
Motor carrier safety			17,114
Right-of-way revolving fund (liquidation of contract authorization)	−15,099		
Baltimore-Washington Parkway		818	1,124
National Highway Traffic Safety Administration appropriations:			
Trust fund share of operations and research	21,026	25,383	28,249
Rescission			
Highway traffic safety grants (liquidation of contract authorization)	120,137	133,400	13,075
Urban Mass Transportation Administration:			
Transportation block grants; transit (liquidation of contract authorization)			264,625
Discretionary grants (liquidation of contract authorization)	506,998	752,611	801,545
Other agencies:			
Cumberland Gap, NPS	3,588	19,300	14,600
Reduction pursuant to P.L. 99–177		−103,761	−305,624
Total annual outlays	13,263,148	14,649,218	14,471,697
Unexpended balance carried forward:			
U.S. securities (par)	11,943,635	12,660,107	13,268,210
Cash	942,390		
Balance of fund at end of year	12,886,025	12,660,107	13,268,210
Commitment against unexpended balances:			
Appropriated but not expended:			
Appropriations	−143,091	−126,179	−92,898
Liquidation of contract authorization	−1,802,433	−2,018,000	−2,013,619
Committed to future liquidating cash appropriations:			
Outstanding obligated balance of contract authority	−21,533,618	−20,885,853	−21,034,140
Unobligated balance of contract authority	−8,102,358	−9,319,181	−8,865,516
Total commitment against unexpended balances	−31,581,500	−32,349,213	−32,006,173
Uncommitted balance, end of year	18,965,475	−19,686,961	−18,737,963

Source: Appendix to the U.S. Budget for fiscal year 1987.

Section 4. Aquatic Resources Trust Fund ("Wallop-Breaux" Fund)

LEGISLATIVE HISTORY

Current Law

The Deficit Reduction Act of 1984 (Public Law 98-369) established a new trust fund, the Aquatic Resources Trust Fund (known as the Wallop-Breaux Fund), by combining and expanding the prior fish restoration and management projects ("Dingell-Johnson" Fund) and the prior National Recreation Boating Safety and Facilities Improvement Fund ("Biaggi" Fund) into a single Trust Fund. The Trust Fund consists of two accounts, the Sport Fish Restoration Account and the Boating Safety Account.

Prior Law

Fish restoration

The Act of August 9, 1950 (commonly referred to as the Dingell-Johnson Act), provided for cooperation between the Federal Government and State fish and game departments. Although the Act did not establish a trust fund, appropriations were linked to specific tax revenues. Limits were placed on State expenditures of federally-appropriated funds until the State had passed laws governing the conservation of fish and the State met other requirements.

Boating safety

1980 Act.—The National Recreational Boating Safety and Facilities Improvement Fund was enacted on October 14, 1980 (Public Law 96-451). Before this time, all funds attributable to the excise taxes on motorboat use of gasoline and other motor fuels were transferred periodically from the Highway Trust Fund into the Land and Water Conservation Fund. The 1980 Act provided financing for the Boating Fund for fiscal years 1981 through 1983.

1982 Act.—The Highway Revenue Act of 1982 (title V of the Surface Transportation Assistance Act of 1982; Public Law 97-424) extended the Boating Fund through fiscal year 1988, and increased the amounts to be transferred into the Fund.

FINANCING MECHANISM

Amounts equivalent to the following revenues are appropriated into the Aquatic Resources Trust Fund:

(1) Revenues from the excise tax on sport fishing equipment, electric outboard motors and sonar devices suitable for finding fish under Internal Revenue Code section 4161;

(2) Revenues from the 9-cents-per-gallon excise tax on gasoline and special motor fuels in motorboats (other than $1 million of those revenues which will continue to be transferred to

the Land and Water Conservation Fund) and received before October 1, 1988; and

(3) Import duties imposed on fishing equipment and on yachts and pleasure craft.

The revenues from the motorboat fuels excise tax described above is allocated first to the Land and Water Conservation Fund (up to $1 million annually) and second to the Boating Safety Account (up to a maximum of $45 million for each fiscal year through 1988). In addition, the maximum amount permitted to be held by the account at any time cannot exceed $45 million.

All the remaining revenues described above are allocated to the Sport Fish Restoration Account.

EXPENDITURE PURPOSES

Sport Fish Restoration Account

Moneys in the account may be expended, subject to appropriation acts,[1] for the purpose of restoring and managing all species of fish that have material value in connection with sport or recreation in the marine and/or fresh waters of the United States, including:

(1) Such research into problems of fish management and culture as may be necessary for efficient administration of fish resources;

(2) Acquisition of such information as necessary to guide and direct the regulation of fishing by law, including the extent of the fish population, the drain on the fish supply from fishing and/or natural causes, the necessity of legal regulation of fishing, and the effects of any measures of regulation that are applied;

(3) Formulation and adoption of plans for restocking waters with food and game fish according to natural areas or districts to which such plans are applicable, together with the acquisition of such facts as are necessary to the formulation, execution, and testing of such plans;

(4) Selection and improvement of areas of water or land adaptable as hatching, feeding, or breeding places for fish, including acquisition by purchase, condemnation, lease, or gift of such areas as are suitable therefore, and the construction thereon of such improvements, as may be necessary to make them available for these purposes;

(5) Acquisition, development, renovation, or improvement of facilities (and auxiliary facilities necessary to ensure safe use of such facilities) that create, or add to, public access to the waters of the United States for boating purposes;

(6) Aquatic resources education programs for increasing public understanding of the Nation's water resources and associated aquatic life forms; and

---

[1] The permanent appropriations provision under the Act of August 31, 1951, is retained by the 1984 Act and governs expenditures from the Sport Fish Restoration Account, as successor to the sport fish restoration program of prior law.

(7) Subject to a percentage limitation contained in the 1984 Act, for administration of the sport fish restoration program by the Secretary of the Interior.

Moneys in the Account remain available until spent.

Boating Safety Account

Moneys in the Boating Safety Account may be expended, subject to appropriation Acts, as follows:

(1) Two-thirds of the amount allocated to the Account in any fiscal year for State boating safety programs (i.e., up to $30 million); and

(2) One-third of the amount allocated to the Account in any fiscal year for the operating expenses account of the Coast Guard (including the Coast Guard Auxiliary) to defray the cost of services provided by it for recreational boating safety (i.e., up to $15 million).

The State boating safety programs purposes eligible for funding from the account are:

(1) Providing facilities, equipment, and supplies for boating safety education and law enforcement, including purchase, operation, maintenance, and repair;

(2) Training personnel in skills related to boating safety and to the enforcement of boating safety laws and regulations;

(3) Providing public boating safety education, including education programs and lectures, to the boating community and the public school system;

(4) Acquiring, constructing, or repairing public access sites used primarily by recreational boaters;

(5) Conducting boating safety inspections and accident investigations;

(6) establishing and maintaining facilities for emergency or search-and-rescue assistance; and

(7) Establishing and maintaining waterway markers and other apporpriate aids to navigation.

Moneys in the Account will be available, subject to appropriations Acts, for expenditure by the Secretary of Transportation pursuant to that Secretary's contract authority, and will remain available until spent.

MISCELLANEOUS

Statutory language relating to sport fish restoration is located at 16 U.S.C. 777 and following. Statutory language relating to boat safety is located at 46 U.S.C. 2102 and 13101 and following. The Aquatic Resources Trust Fund is established at section 9504 of the Internal Revenue Code.

Jurisdiction over expenditures from the Aquatic Resources Trust Fund is in the Committee on Merchant Marine and Fisheries.

Section 5. Superfunds

(A) Hazardous Substance Response Trust Fund

LEGISLATIVE HISTORY

The Hazardous Substance Response Trust Fund was enacted in Title II, Subtitle B, the Comprehensive Environmental Response, Compensation, and Liability Act of 1980 on December 11, 1980 (Public Law 96-510).

FINANCING MECHANISM

The 1980 Act appropriates, out of any money in the Treasury not otherwise appropriated, to the Response Trust Fund amounts determined by the Secretary of the Treasury to be equivalent to the excise taxes received in the Treasury under Internal Revenue Code sections 4611 and 4661, the amounts recovered on behalf of the Response Trust Fund under the Act, all moneys recovered or collected under section 311(b)(6)(B) of the Clean Water Act, penalties assessed under Title I of the 1980 Act, and punitive damages under section 107(c)(8) of the 1980 Act.

Internal Revenue Code section 4611 imposed a tax of 0.79 cent a barrel on crude oil used in, exported from, or imported into the United States. The tax does not apply to any use of crude oil for extracting oil or natural gas on the premises where the crude oil was produced. Internal Revenue Code section 4661 imposed a tax on any taxable chemical sold by a manufacturer, producer, or importer. These taxes expired on September 30, 1986. See the part of this document describing pending legislation for possible action regarding funding of the Hazardous Substance Response Trust Fund. The tax rate was determined in accordance with Table 1:

TABLE 1.—TAX RATES ON CHEMICALS

Chemical	Tax per ton
Acetylene	$4.87
Benzene	4.87
Butane	4.87
Butylene	4.87
Butadiene	4.87
Ethylene	4.87
Methane	3.44
Naphthalene	4.37
Propylene	4.87
Toluene	4.87
Xylene	4.87

TABLE 1.—TAX RATES ON CHEMICALS—Continued

Chemical	Tax per ton
Ammonia	2.64
Antimony	4.45
Antimony trioxide	3.75
Arsenic	4.45
Arsenic trioxide	3.41
Barium sulfide	2.30
Bromine	4.45
Cadmium	4.45
Chlorine	2.70
Chromium	4.45
Chromite	1.52
Potassium dichromate	1.69
Sodium dichromate	1.87
Cobalt	4.45
Cupric sulfate	1.87
Cupric oxide	3.59
Cuprous oxide	3.97
Hydrochloric acid	.29
Hydrogen fluoride	4.23
Lead oxide	4.14
Mercury	4.45
Nickel	4.45
Phosphorus	4.45
Stannous chloride	2.85
Stannic chloride	2.12
Zinc chloride	2.22
Zinc sulfate	1.90
Potassium hydroxide	.22
Sodium hydroxide	.28
Sulfuric acid	.26
Nitric acid	.24

These taxes applied from April 1, 1981, through September 30, 1985. However, if on September 30, 1983, or September 30, 1984, the unobligated balance in the Hazardous Substance Response Trust Fund as of that date exceeds $900 million (it did not) and the Secretary of the Treasury (after consultation with the Administrator of the Environmental Protection Agency) determines that the unobligated balance will exceed $500 million on September 30 of the following year if no more excise taxes are collected under Internal Revenue Code section 4611 or 4661 during the following calendar year, then no tax shall be imposed during the following year. Further, the authority to collect these taxes would have terminated when cumulative receipts reach $1.38 billion.

The Act authorized to be appropriated to the Response Trust Fund, $44 million in each fiscal year from 1981 through 1985. The Act also authorized an appropriation in 1985 of an amount equal to so much of the aggregate amount authorized and not appropriated in the earlier fiscal years.

The Act provided for the transfer to the Response Trust Fund of one-half of the unobligated balance remaining on December 10, 1980, under the Fund in section 311 of the Clean Water Act and the amounts appropriated under section 504(b) of the Clean Water Act during any fiscal year.

The Act also authorized to be appropriated to the Response Trust Fund, as repayable advances, such sums as may be necessary to carry out the purposes of the Fund. Advances are not to exceed amounts which the Secretary of the Treasury estimates will be received by the Fund in the following 12 months. No advance is to be made after September 30, 1985, and all previous advances are to be repaid before that time.

EXPENDITURE PURPOSES

The Act establishes a comprehensive system of notification, emergency response, enforcement, and liability for hazardous substance spills and uncontrolled hazardous waste dumpsites. The program is designed to provide a broad based cleanup effort.

Amounts in the Response Trust Fund are available in connection with releases or threats of releases of hazardous substances into the environment only for purposes of making expenditures which are described in the Act as in effect on December 11, 1980, including response costs; claims asserted and compensable but unsatisfied under section 311 of the Clean Water Act; claims for injury to, or destruction or loss of, natural resources; and related costs described in the Act.

At least 85 percent of the amounts appropriated to the Response Trust Fund equivalent to the taxes under Internal Revenue Code section 4611 or 4661 (and through the additional authorized amounts for each fiscal year) are to be reserved for payment of governmental response costs pursuant to the Act, including costs incurred pursuant to the Intervention on the High Seas Act, payment of any claim for necessary response costs incurred by any other person as a result of carrying out the national contingency plan established under the Clean Water Act as amended by the 1980 Act and approved under the plan and certified by the responsible Federal official, payment of costs specified under Act section 111(c), and for the repayment of certain advances made under the Act.

MISCELLANEOUS

The statutory language establishing the Hazardous Substance Response Trust Fund and governing its operation are located at 42 U.S.C. 9631 et seq.

FINANCIAL STATUS OF FUND

TABLE 2.—HAZARDOUS SUBSTANCE RESPONSE TRUST FUND—AMOUNTS AVAILABLE FOR APPROPRIATION

[In thousands of dollars]

	1985 actual	1986 estimate	1987 estimate
Unappropriated balance, start of year	277,233	51,192	61,000
Receipts:			
Interest	54,958	62,000	81,000
Fines and recoveries	7,939	33,000	56,000
Transfers from the general fund, amounts equivalent to taxes	273,144	427,000	893,000
Transfer from Post-Closure Liability Trust Fund: Proposed legislation		18,220	
Payments and advances from the general fund	44,000	329,191	33,000
Total:			
Available for appropriation	606,082	859,603	1,050,000
Not available for appropriation: Unrealized discount	51,192	61,000	74,000
Appropriation	−606,082	−900,000	−1,050,000
Reduction pursuant to P.L. 99–177		40,397	
Unappropriated balance, end of year	51,192	61,000	74,000

Source: Appendix to the U.S. Budget for fiscal year 1987.

Table 2 is based on the President's legislative proposal submitted to the Congress during 1985. It does not reflect pending legislation discussed in a different part of this document.

(B) Post-closure Liability Trust Fund

LEGISLATIVE HISTORY

The Post-closure Liability Trust Fund was enacted in Title II, Subtitle C, the Comprehensive Environmental Response, Compensation, and Liability Act of 1980 on December 11, 1980 (Public Law 96–510).

FINANCING MECHANISM

The Fund consists of "such amounts as may be appropriated, credited, or transferred to" the Trust Fund.

The Comprehensive Environmental Response, Compensation, and Liability Act imposed an excise tax on the receipt of hazardous waste at a qualified hazardous waste disposal facility. Under Internal Revenue Code section 4681, the tax imposed on the owner or operator of the qualified hazardous waste disposal facility is $2.13 per dry weight ton of hazardous waste. The tax applies to the receipt of hazardous waste after September 30, 1983, except that if, as of September 30 of any subsequent calendar year, the unobligated balance of the Post-closure Liability Trust Fund exceeds $200 million, no tax shall be imposed under section 4681 during the following year.

EXPENDITURE PURPOSES

Amounts in the Post-closure Liability Trust Fund are to be available only for the purposes described in the 1980 Act as in effect on December 11, 1980. Under the Act, the liability of the owner or operator of a hazardous waste disposal facility which has received a permit under subtitle C of the Solid Waste Disposal Act shall be transferred to the Fund when (1) the owner and operator of the facility has complied with the requirements under subtitle C of the Solid Waste Disposal Act and regulations thereunder which may affect the performance of such facility after closure, and (2) the facility has been closed in accordance with the regulations and the conditions of the permit, and the facility has been monitored as required by the regulations and permit for a period not to exceed 5 years after closure to demonstrate that there is no substantial likelihood that any migration offsite or release from confinement of any hazardous substance or other risk to public health or welfare will occur. The transfer of liability is to be effective 90 days after the owner or operator of the facility notifies the Administrator of the Environmental Protection Agency (and the State if it has an authorized program) that the required conditions have been satisfied. If all the requirements are not met or if insufficient information has been provided, the Administrator or State representative notifies the owner and operator who continues to be liable until the Administrator and State determine that the facility has complied with the liability transfer requirements under this Act. The Fund also may be used to pay the cost of monitoring and care and maintenance of a site incurred by other persons after the period of monitoring required by regulations under subtitle C of the Solid Waste Disposal Act for hazardous waste disposal facilities meeting the transfer conditions described above.

The Act also provides that the President is to use the money in the Post-closure Liability Fund for the following purposes (with respect to a hazardous waste disposal facility for which liability has been transferred to the Fund under the Act):

(1) payment of certain governmental response costs, including costs incurred pursuant to the Intervention on the High Seas Act;

(2) payment of any claim for necessary response costs incurred by any other person as a result of carrying out the national contingency plan established under the Clean Water Act and amended by the 1980 Act provided, however, that such costs must be approved under the plan and certified by the responsible Federal official;

(3) payment of any claim authorized under Act section 111(b) and finally decided pursuant to Act section 112 (claims procedure); and

(4) payment of costs specified under Act section 111(c) (list of types of costs covered).

MISCELLANEOUS

The statutory provisions establishing the Post-closure Liability Trust Fund and governing its operation are located at 42 U.S.C. 9641.

FINANCIAL STATUS OF FUND

TABLE 3.—POST-CLOSURE LIABILITY TRUST FUND—AMOUNTS AVAILABLE FOR APPROPRIATIONS

[In thousands of dollars]

	1985 actual	1986 estimate	1987 estimate
Unappropriated balance, start of year	9,618	18,420	
Receipts:			
Interest and profits on investments	2,058	1,600	1,600
Proposed legislation		−1,800	−1,600
Transfer from the general fund, amounts equivalent to taxes	6,744		
Transfer to the Hazardous Response Trust Fund: Proposed legislation		−18,220	
Total:			
Available for appropriation	18,007		
Not available for appropriation—Unrealized discount	413		
Appropriation: Post-closure liability trust fund			
Unappropriated balance, end of year	18,420		

Source: U.S. Budget Appendix, Fiscal Year 1987.

Legislation is pending which would eliminate this Trust Fund and refund previous tax payments.

Section 6. Inland Waterways Trust Fund

LEGISLATIVE HISTORY

The Inland Waterways Trust Fund was established in Title II of Public Law 95-502, the Inland Waterways Revenue Act of 1978, enacted on October 21, 1978. The purpose of the Act is to provide funding for making construction and rehabilitation expenditures for navigation on specified inland and intracoastal waterways.

FINANCING MECHANISM

The 1978 Act imposed an excise tax (section 4042 of the Internal Revenue Code) effective October 1, 1980, on fuel used by vessels in commercial waterway transportation on those 26 inland and intracoastal waterways specified in section 206 of the Act. These waterways include the Mississippi River upstream from Baton Rouge, the Mississippi's tributaries, and the Gulf and Atlantic Intracoastal Waterways.

The tax rate was established at 4 cents per gallon for October 1, 1980, through September 30, 1981, with scheduled increases of 2 cents per gallon on October 1, 1981 (to 6 cents), October 1, 1983 (to 8 cents), and October 1, 1985 (to 10 cents). The tax does not apply to deep-draft ocean-going vessels, passenger or fishing vessels, or certain barges. The revenues from this tax are deposited into the Trust Fund.

EXPENDITURE PURPOSES

Amounts in the Trust Fund are available as provided in appropriations acts, for construction and rehabilitation expenditures for navigation on the specified inland and intracoastal waterways.

MISCELLANEOUS

The 1978 Act required an extensive study of inland waterways user taxes and charges by the Secretary of Transportation and the Secretary of Commerce, in consultation with a number of other agencies. Section 205 of the Act specified the issues to be considered in the study. These issues included: the extent to which the Federal Government should seek to recover its expenditures from users; the various forms of taxes or charges, methods for collecting, and coverage of users and waterways; the economic effects on carriers and users, regions, businesses, competitors, prices and so forth; the proper measurement of benefits to be assigned to users; the effects on development of the waterways. This study, which was to be submitted to Congress no later than September 30, 1981, along with the findings and recommendations of the Secretary of Transportation and various other agencies, was received in February 1982.

The Secretary of the Treasury is also required to submit an annual report to the Congress on the financial condition of the Trust Fund, beginning September 30, 1981. This annual report has not been received by the Congress.

The House Committee on Public Works and Transportation has jurisdiction over inland waterway authorizations.

The statutory provisions establishing the Inland Waterways Trust Fund and governing its operations are located at 33 U.S.C. 1801.

FINANCIAL STATUS OF THE TRUST FUND

The table below describes amounts in the Trust Fund that are available for appropriation.

AMOUNTS AVAILABLE FOR APPROPRIATION

[In thousands of dollars]

	1985 actual	1986 estimate	1987 estimate
Unappropriated balance, start of year	133,147	172,308	245,308
Receipts:			
Inland waterway fuel tax	40,357	51,000	52,000
Interest and profits on investments	6,604	22,000	25,000
Total available for appropriation	180,108	245,308	322,308
Appropriation	−7,800		−26,000
Unappropriated balance, end of year	172,308	245,308	296,308

Source: Appendix of the U.S. Budget for fiscal year 1987.

Section 7. Land and Water Conservation Fund

LEGISLATIVE HISTORY

On September 3, 1964, the Congress enacted Public Law 88-578, which established the Land and Water Conservation Fund as a separate account in the Treasury, effective January 1, 1965. Minor amendments were made to the Fund in 1965 (Public Law 89-72).

In 1968, Public Law 90-401 eliminated the system of user fees for all Federal recreation areas that had been included previously in the law. The repeal was effective December 31, 1971.[1] The 1968 Act also added authorization for additional appropriations of such amounts as were necessary to make the income of the Fund not less than $200 million for each of the five fiscal years beginning July 1, 1968, and ending June 30, 1973. To the extent that appropriated sums were insufficient to reach the required amounts, an amount sufficient to cover the remainder was to be credited to the Fund from revenues due and payable to the United States for deposit in the Treasury as miscellaneous receipts under the Outer Continental Shelf Lands Act.

In 1970, Public Law 91-485 increased the authorized appropriations to not less than $300 million for fiscal years 1971 through June 30, 1989. As a result of amendments in 1976 and 1977, the amount for fiscal year 1978 was increased to $900 million (Public Law 94-422, Public Law 94-273 and Public Law 95-42).

In 1981, Public Law 96-451 provided for the transfer from the Land and Water Conservation Fund of an amount not to exceed $20 million per year for fiscal years 1981-1983 of revenues from motorboat fuel taxes to the National Recreational Boating Safety and Facilities Improvement Fund. The Highway Revenue Act of 1982 (Title V of the Surface Transportation Assistance Act of 1982, Public Law 97-424) increased this limitation on transfers of motorboat fuels taxes to the Boating Fund to $45 million through September 30, 1988. In 1981, Public Law 96-514 provided that revenues from recreation fee collections should be deposited into the Land and Water Conservation Fund.

The Deficit Reduction Act of 1984 (Public Law 98-369) reduced the amount attributable to the excise taxes on gasoline and special fuels used in motorboats which is transferred to the Land and Water Conservation Fund. Under the Act, an amount not to exceed $1 million per fiscal year of the revenue attributable to these motorboat fuels excise taxes will continue to be transferred to the Fund. (See section 4 for changes in the Boating Fund.)

---

[1] A limited system of fees was later reinstated, and for several years these revenues generally were to be covered into a special account in the Treasury to be administered in conjunction with, but separately from, the Land and Water Conservation Fund.

FINANCING MECHANISM

Internal Revenue Code section 9503 provides that up to $1 million per year of amounts equivalent to motorboat fuel taxes will be transferred from the Highway Trust Fund to the Land and Water Conservation Fund.

As provided by 16 U.S.C. 460*l*–5, the following amounts will be deposited in the Land and Water Conservation Fund:

(1) All proceeds (except that committed under 40 U.S.C. 485 (b) to (e) or the Independent Offices Appropriation Act or in any later appropriation act) received from any disposal of surplus real property and related personal property under the Federal Property and Administrative Services Act of 1949 (as amended), notwithstanding any provision of law that such proceeds shall be credited to miscellaneous receipts of the Treasury;

(2) The motorboat fuel tax revenues described above and certain related revenues received before July 1, 1978;

(3) In addition, there are authorized to be appropriated annually to the Fund such amounts as necessary to make the income of the Fund not less than $300 million for fiscal year 1977, and $900 million for fiscal year 1978 and for each fiscal year thereafter through September 30, 1989; and

(4) To the extent that the appropriated sums are not sufficient to make the total annual income of the Fund equivalent to the amounts enumerated above, an amount sufficient to cover the remainder shall be credited to the Fund from revenues due and payable as miscellaneous receipts under the Outer Continental Shelf Lands Act (43 U.S.C. 1331 *et seq.*).

Moneys covered into the Fund under (4) above remain in the Fund until appropriated by the Congress.

16 U.S.C. 460*l*–5a provides that revenues from recreation fee collections by Federal agencies shall be paid into the Land and Water Conservation Fund, to be available for appropriation for any or all purposes authorized by the Land and Water Conservation Fund.

EXPENDITURE PURPOSES

16 U.S.C. 460*l*–4 provides that the land and water conservation provisions of section 460 are "to assist in preserving, developing, and assuring accessibility to all citizens of the United States of America of present and future generations and visitors who are lawfully present within the boundaries of the United States of America such quality and quantity of outdoor recreation resources as may be available and are necessary and desirable for individual active participation in such recreation and to strengthen the health and vitality of the citizens of the United States by (1) providing funds for and authorizing Federal assistance to the States in planning, acquisition, and development of needed land and water areas and facilities and (2) providing funds for the Federal acquisition and development of certain lands and other areas."

Moneys in the Fund are available for expenditures as provided in appropriation acts. Not less than 40 percent of annual appropriations are to be used for Federal purposes; these include activities and programs of the Bureau of Land Management, the Forest Service, the Fish and Wildlife Service and the National Park Service. The remainder of funds appropriated are for State purposes, and these funds are apportioned among the States on the basis of statutory formula and criteria.

MISCELLANEOUS

Jurisdiction over all the land and water conservation programs is within the Committee on Interior and Insular Affairs.

No annual report is required on the Fund's financial condition or operations.

The statutory provisions establishing the Land and Water Conservation Fund and governing its operation are located at 16 U.S.C. 460(l).

FINANCIAL STATUS OF FUND

The following table contains data on the Fund's receipts for fiscal years 1984 (actual), 1985, and 1986, as well as the Fund's balance at the end of the fiscal years.

TABLE 1.—AMOUNTS AVAILABLE FOR APPROPRIATION

[In thousands of dollars]

	1985 actual	1986 estimate	1987 estimate
Regular account: Unappropriated balance, start of year	3,006,634	3,584,022	4,382,780
Offsetting receipts: Land and Water Conservation Fund Act:			
Recreation fees	30,898	31,645	32,275
Proposed legislation			−31,100
Surplus property sales	220,296	120,214	93,011
Motorboat fuels tax	1,000	1,000	1,000
Outer Continental Shelf receipts	647,806	747,141	773,714
Proposed legislation			31,100
Total available for appropriation	3,906,634	4,484,022	5,282,780
Appropriation:			
Bureau of Land Management, land acquisition	−2,695	−2,286	
Reduction pursuant to P.L. 99–177		98	
Fish and Wildlife Service, land acquisition	−70,218	−40,426	−1,500
Reduction pursuant to P.L. 99–177		1,738	
Proposed recession		4,951	
National Park Service, land acquisition	−199,164	−97,810	−15,270
Reduction pursuant to P.L. 99–177		4,206	
Proposed recession		55,207	
Forest Service (Department of Agriculture), land acquision	−50,535	−28,130	−3,206

TABLE 1.—AMOUNTS AVAILABLE FOR APPROPRIATION—Continued

[In thousands of dollars]

	1985 actual	1986 estimate	1987 estimate
Reduction pursuant to P.L. 99-177		1,210	
Forest Service (Department of Agriculture), operation and maintenance of recreation facilities			−52,000
Total appropriations	−322,612	−101,242	−71,976
Unappropriated balance, end of year	3,584,022	4,382,780	5,210,804
Special account (Public Law 95-42, sec. 1):			
Unappropriated balance, start of year	142,621	142,621	142,621
Total available for appropriation	142,621	142,621	142,621
Appropriation			
Unappropriated balance, end of year	142,621	142,621	142,621

Source: Appendix of the U.S. Budget for Fiscal Year 1987.

Section 8. Wildlife Restoration Projects ("Pittman-Robertson" Fund)

LEGISLATIVE HISTORY

The Act of September 2, 1937, provided for cooperation between the Federal Government and the States regarding wildlife restoration projects. The 1939 Reorganization Plan No. II, section 4(f), transferred the functions of the Secretary of Agriculture relating to the conservation of wildlife game and migratory birds to the Secretary of the Interior.

The 1937 Act provided that amounts equivalent to excise taxes on sporting arms and ammunition would be deposited into the Federal Aid to Wildlife Restoration Fund.

The Federal Aid in Wildlife Restoration Act Amendments of 1970 (Title I of Public Law 91-503), added provisions for the deposit of the amounts equivalent to excise taxes on pistols and revolvers into the Fund beginning in fiscal year 1971. Public Law 92-558 added provisions for the deposit of amounts equivalent to the excise taxes on bows and arrows and their parts and accessories into the Fund beginning with fiscal year 1975.

FINANCING MECHANISM

To carry out wildlife restoration projects, there is authorized to be appropriated an amount equal to all revenues accruing from any tax imposed by Internal Revenue Code section 4161(b) on bows, arrows, and parts and accessories and section 4181 on pistols, revolvers, other firearms, shells, and cartridges. Section 4161 imposes an excise tax of 11 percent of the price for which bows with a draw weight of 10 pounds or more; arrows that measure 18 inches overall or more in length or arrows that measure less than 18 inches in overall length which are suitable for use with a taxable bow; and parts, accessories, or quivers suitable for use with taxable bows are sold by a manufacturer, producer, or importer. Section 4181 imposes a similar tax of 10 percent upon the sale of pistols and revolvers and 11 percent on other firearms, shells, and cartridges. Section 4182 provides exemptions for certain machine guns and short barrelled firearms (on which a transfer tax has been paid under section 5811) and sales to the Defense Department.

EXPENDITURE PURPOSES

Any State which wishes to receive any of these appropriations must assent to the provisions of Chapter 5B of U.S. Code Title 16 and enact laws for the conservation of wildlife including a prohibition against the diversion of license fees paid by hunters for any purpose other than the administration of the State fish and game department. The Secretary of the Interior and the State fish and game department must agree upon the wildlife restoration projects to be aided in the State. The project must conform to the standards fixed by the Secretary of the Interior.

A wildlife restoration project is defined to include the selection, restoration, rehabilitation, and improvement of areas of land or water adaptable as feeding, resting, or breeding places for wildlife, including acquisition by purchase, condemnation, lease or gift of such areas or estates or interests therein as are suitable or capable of being made suitable therefor, and the construction thereon or therein of such works as may be necessary to make them available for such purposes. The term includes also such research into problems of wildlife management as may be necessary to efficient administration affecting wildlife resources.

The authorized revenues are made available until expended. Amounts not spent by a State within two fiscal years are made available for expenditure by the Secretary of the Interior to carry out the provisions of the Migratory Bird Conservation Act (16 U.S.C. 715).

Up to 8 percent of the available funds are required to be apportioned as the Secretary of the Interior estimates necessary to administer the Migratory Bird Conservation Act. The remainder of the revenue (except as provided in the following paragraph) is apportioned among the States in the following manner: one-half in the ratio which the area of each State bears to the total area of all the States, and one-half in the ratio which the number of paid hunting-license holders of each State (2 years earlier) bears to the total number of paid license holders of all the States. No State is to receive less than one-half of 1 percent or more than 5 percent of the total amount apportioned.

One-half of the revenues from the tax imposed on pistols, revolvers, bows, and arrows is to be apportioned among the States in proportion to the ratio that the population of each State bears to the population of all the States. Each State is to be apportioned between 1 and 3 percent of the revenue under this population apportionment.

Puerto Rico, Guam, the Commonwealth of the Northern Mariana Islands, and the Virgin Islands can also be appropriated limited amounts of these revenues.

MISCELLANEOUS

Statutory language providing the permanent authorization and related matters is located at 16 U.S.C. 669 and following.

The Committee on Merchant Marine and Fisheries has jurisdiction over expenditures for wildlife restoration projects.

Section 9. Reforestation Trust Fund

Legislative History

In 1980, the Congress enacted Title III of Public Law 96-451 which provided for the amortization of certain reforestation expenses and established the Reforestation Trust Fund.

In 1982, provisions were enacted as part of the Surface Transportation Assistance Act of 1982 (H.R. 6211, P.L. 97-424) directing the Secretary of Agriculture to expend all amounts in the Trust Fund during fiscal years 1983, 1984, and 1985, and directing that the Secretary spend not less than $104 million in fiscal year 1983. Amounts remaining in the Trust Fund as of October 1, 1985, are to be distributed to the States for use in State forestry programs no later than April 30, 1986.

Financing Mechanism

Funds for the Reforestation Trust Fund are derived from import duties on plywood and lumber. The Secretary of the Treasury is required to transfer receipts from these tariffs to the Trust Fund in maximum amounts of $30 million for each fiscal year during the six-year period from October 1, 1979, through September 30, 1985. Under the 1982 amendments, amounts available in the Fund on October 1, 1985, are to be distributed to the States, as noted above.

Expenditure Purposes

Funds are to be used to supplement congressional appropriations for reforestation and timber stock improvement on publicly owned national forests, in order to eliminate and prevent a backlog in reforestation of the National Forest system.

For each of the five fiscal years from fiscal year 1981 through fiscal year 1985, appropriations have been authorized from the Trust Fund to the Secretary of Agriculture to pay estimated necessary direct costs and properly allocable administrative costs for reforestation and related programs (under section 3(d)(2)) of the Forest Rangeland Resources Planning Act of 1974 (16 U.S.C. 1601(d)(2)), but only to the extent these estimated costs exceed amounts appropriated out of the general fund for these purposes.

Miscellaneous

After consulting with the Secretary of Agriculture, the Secretary of the Treasury must submit annual reports to the Congress setting forth the financial condition and operating results of the Reforestation Trust Fund for the preceding fiscal year and the expected condition and results of the Trust Fund for the next year.

The statutory language establishing the Reforestation Trust Fund and governing its operations are located at 16 U.S.C. 1606(a).

FINANCIAL STATUS OF FUND

TABLE 1.—REFORESTATION TRUST FUND—PROGRAM AND FINANCING

[In thousands of dollars]

	1985 actual	1986 estimate	1987 estimate
Program by activities:			
Total obligations	78,556	34,749	30,000
Financing:			
Unobligated balance, start of year	−45,900	−4,749	
Unobligated balance available, end of year	4,749		
Budget authority (appropriation) (permanent)	37,405	30,000	30,000
Reduction Pursuant to Public Law 99–177			
Program by activities:			
Total obligations		−1,290	
Financing:			
Unobligated balance available, start of year			−1,290
Unobligated balance available, end of year		1,290	1,290
Budget authority			
Relations of obligations to outlays:			
Obligations incurred, net		−1,290	
Obligated balance, start of year			−258
Obligated balance, end of year		258	
Outlays		−1,032	−258

Source: U.S. Budget Appendix, Fiscal Year 1987.

These reductions are required by the Balanced Budget and Emergency Deficit Control Act of 1985 (Public Law 99-177).

Section 10. Deep Seabed Revenue Sharing Trust Fund

LEGISLATIVE HISTORY

The Deep Seabed Revenue Sharing Trust Fund was established in 1979 by Title IX of the Deep Seabed Hard Mineral Resources Act (Public Law 96-223). The purpose of the Trust Fund is to accelerate the program of environmental assessment of exploration for and commercial recovery of hard mineral resources of the deep seabed and assure that such exploration and recovery activities are conducted in a manner which will encourage the conservation of such resources, protect the quality of the environment, and promote the safety of life and property at sea. An additional purpose is to encourage continued development of deep seabed mining technology.

FINANCING MECHANISM

The Deep Seabed Revenue Sharing Trust Fund is funded by amounts determined by the Secretary of the Treasury to be equivalent to the amount of the excise taxes received in the Treasury under the Deep Seabed Hard Mineral Removal Tax Act of 1979. The excise tax, imposed under Internal Revenue Code section 4495, is 3.75 percent of the "imputed value" of hard mineral resources removed from the deep seabed.[1] The tax became effective on January 1, 1980, and terminates after the earlier of the date on which an international deep seabed treaty takes effect with respect to the United States or on June 29, 1990.

A mining company can elect to have the application of the excise tax suspended with respect to one or more commercially recoverable metals or minerals contained in the nodules removed from the deep seabed if the mining company does not intend to process, use commercially, or sell that metal or mineral within one year after the date of extraction. If a mining company elects to suspend the tax on a mineral and later processes, uses, or sells that mineral, then the mining company is liable for the excise tax and interest on the deferred amount. The interest is to be paid into the Trust Fund and will be treated like other amounts in the Trust Fund. If the additional tax is paid after substantial disposition of Trust Fund assets by Congress, the additional tax is to be disposed of in a manner provided in the legislation making the substantial disposition or in subsequent acts.

---

[1] The "imputed value" is equal to 20 percent of the fair market value of the commercially recoverable metals and minerals in such resource. Thus, the effective tax rate is 0.75 percent of the fair market value of the resource.

EXPENDITURES PURPOSES

Appropriations have been authorized from the Trust Fund for making contributions which may be required pursuant to an international deep seabed treaty which may become effective with respect to the United States on or before June 28, 1990. Trust Fund amounts may be appropriated for making contributions required under such a treaty for the purpose of sharing the revenue from deep seabed mining among nations of the world.

In the event that an international deep seabed treaty does not become effective with respect to the United States on or before June 28, 1990, amounts in the Trust Fund will be available for such purposes as Congress may provide by law. Thus, if an international deep seabed treaty is not in effect with respect to the United States prior to June 29, 1990, amounts in the Trust Fund will be disposed of only in accordance with an act of Congress.

MISCELLANEOUS

The Secretary of the Treasury is required to submit an annual report to the Congress with respect to the Deep Seabed Revenue Sharing Trust Fund beginning with the fiscal year ending September 30, 1980.

The Statutory provisions establishing the Deep Seabed Revenue Sharing Trust Fund and governing its operation are located at 30 U.S.C. 1472.

FINANCIAL STATUS OF FUND

Since no treaty is yet in effect, there have been no appropriations from the Fund. No revenues are expected from the excise tax until the late 1980's. At that time it is estimated that the tax will raise a maximum of $5 million in annual net revenues (gross revenue less income tax lost because of deductibility of the tax).

Section 11. Tax Court Judges Survivors Annuity Fund

LEGISLATIVE HISTORY

The Tax Court Judges Survivors Annuity Fund was enacted in Public Law 87-370 on October 4, 1961. Amendments which increase the annuity amounts payable from the Fund were enacted in Public Law 97-362 (H.R. 4717) on October 25, 1982. Amendments to increase the maximum annuities receivable by surviving children of a deceased Tax Court judge where the judge also leaves a surviving spouse were enacted in Public Law 98-369 (H.R. 4170) on July 18, 1984. Internal Revenue Code section 7448 provides the statutory basis for the annuities to surviving spouses and dependent children of Tax Court judges.

FINANCING MECHANISM

Any judge of the United States Tax Court may by written election while a judge (or before a successor takes office) participate in the Fund. There is deducted and withheld from the salary of each judge electing to participate 3 percent of that judge's salary. The amounts deducted and withheld are deposited, in accordance with procedures prescribed by the Comptroller General of the United States, in the U.S. Treasury to the credit of the Tax Court Judges Survivors Annuity Fund. A judge may deposit, with interest at 4 percent per annum to December 31, 1947, and 3 percent per annum thereafter, compounded on December 31 of each year, to the credit of the Fund, a sum equal to 3 percent of the judge's salary and of that individual's basic salary, pay, or compensation for service as a Senator, Representative, Delegate, or Resident Commissioner in Congress, and for any other civilian service within the purview of 5 U.S.C. 8332. Each judge may elect to make the deposits in installments during continuance of service as a judge in such amount and under such conditions as may be determined in each instance by the chief judge of the Tax Court.

Notwithstanding the failure of a judge to make the deposit, credit is allowed for the service rendered, but the annuity of the surviving spouse of the judge is reduced by an amount equal to 10 percent of the amount of the deposit, computed as of the date of the death of the judge (unless the surviving spouse elects not to count the service, for which the deposit was not made, in determining the annuity due). No deposit is required from a judge for any year with respect to which deductions from salary were actually made under the civil service retirement laws. Also, no deposit is required for any honorable service in the Army, Navy, Air Force, Marine Corps, or Coast Guard of the United States.

EXPENDITURE PURPOSES

The Fund is used to pay annuities to a deceased judge's surviving spouse and children.

If a judge who elects to participate in the Fund dies after having rendered at least 5 years of civilian service for which salary was withheld for the Fund (or for which salary was withheld under the civil service retirement laws), a surviving spouse or surviving dependent child is entitled to an annuity from the Fund. If the surviving spouse has not attained age 50 at the date of the judge's death (and no dependent child survives), the annuity commences when the surviving spouse reaches age 50. The annuity payable to a surviving spouse terminates upon the surviving spouse's death or remarriage. An annuity payable to a dependent child and to a surviving spouse, if the judge is also survived by a dependent child, begins immediately after the judge's death. The annuity for a dependent child terminates generally upon the surviving child's reaching 18 years of age, marriage, or death. If the child is incapable of self support because of mental or physical disability, the annuity would terminate only upon death, marriage, or recovery from the disability.

The annuity payable to a surviving spouse of a judge electing under the Fund is equal to a stated percentage (generally 1¼ percent) of the average annual salary received by the judge (whether the judge's salary or compensation for other allowable Federal service) for the 5 consecutive years in which the judge received the largest average annual salary, multiplied by the sum of years of judicial or other allowable Federal service. The annuity for the surviving spouse cannot exceed 37½ percent of the average annual salary of the judge. The annuity of the surviving spouse will be reduced to account for periods of time when the judge did not contribute to the Fund. The amount of the annuity payable to a surviving dependent is based upon the annuity payable to a surviving spouse (subject to certain limits).

Under the 1982 amendments, annuities payable with respect to judges dying after the date of enactment are increased by (1) basing the annuity on the judges' salary for the 3 (versus 5) consecutive years in which the judges received the largest average annual salary, and (2) increasing the maximum annuity to 40 percent (versus 37½ percent) of such average annual salary. These amendments also provide that survivor annuities will be adjusted for cost-of-living increases by increasing such annuities by 3 percent for each 5 percent by which the salary of Tax Court judges is increased. Annuities in pay status on the date of enactment are adjusted immediately to reflect post-1963 salary increases.

Under the 1984 amendments, the maximum annuities receivable by surviving children of a deceased Tax Court judge where the judge also leaves a surviving spouse are increased from $900 per year per family ($360 per child) to $4,644 per year per family ($1,548 per child). Where there is no surviving spouse, the maximum annuities for surviving dependent children are increased to $5,580 per year per family, or $1,800 per child, whichever is less. These increases are effective for annuities payable for months beginning after July 18, 1984.

MISCELLANEOUS

The statutory provisions governing this Fund are located at Internal Revenue Code section 7448.

FINANCIAL STATUS OF FUND

As of September 30, 1985, 20 judges of the Tax Court were participating in the Fund, and 2 eligible widows were receiving survivor annuities. Table 1 describes the present status of the Fund.

TABLE 1.—TAX COURT JUDGES SURVIVORS ANNUITY FUND—PROGRAM AND FINANCING

[In thousands of dollars]

	1985 actual	1986 estimate	1987 estimate
Total obligations	26	31	31
Financing:			
Unobligated balance available, start of year:			
Treasury balance	−1	−12	−5
U.S. securities (par)	−1,301	−1,553	−1,861
Unobligated balance available, end of year:			
Treasury balance	12	5	5
U.S. securities (par)	1,553	1,861	2,173
Budget authority (appropriation) (permanent, indefinite)	289	332	343
Relation of obligations to outlays:			
Obligations incurred, net	26	31	31
Outlays	26	31	31

Source: Fiscal year 1987 Budget of the United States, Appendix, p. I–A23.

Section 12. Railroad Retirement System

The railroad retirement system is a federally legislated program which provides retirement, disability and survivor annuities to workers whose employment was connected with the railroad industry for at least 10 years. The system, in existence since 1936, was substantially modified by the Railroad Retirement Act of 1974 (RRA), which provided for closer coordination with the social security system. Credits are primarily secured by employment in the railroad industry, although any social security credits earned during employees' work careers are included in the benefit computation. Benefits are financed through a combination of employee, employer, and Federal Government contributions.

Retirement and survivor benefit payments during fiscal year 1985 totaled $6,251 million. These payments were made to 1,024,000 beneficiaries. Retired employee and spouse annuitants constituted 694,000 of these beneficiaries and received $4,539 million. Survivor beneficiaries received a total of $1,712 million, consisting of $1,702 million in monthly benefits and $9 million in lump-sum payments.

JURISDICTION

In the House of Representatives, the jurisdiction over the railroad retirement system is divided between two standing committees. Under the rules of the House, the Energy and Commerce Committee has jurisdiction over "railroads, including railroad labor, railroad retirement and unemployment, except revenue measures related thereto." That committee therefore has jurisdiction over the Railroad Retirement Act, which contains the substantive legislation relating to railroad retirement legislation. The Committee on Ways and Means has jurisdiction over all revenue measures, including the Railroad Retirement Tax Act (Chapter 22 of the Internal Revenue Code of 1954). Within the Committee on Ways and Means jurisdiction over employment taxes and trust fund operations relating to the railroad retirement system lies within the Subcommittee on Social Security.

HISTORICAL DEVELOPMENT

In the final quarter of the 19th century, railroad companies were among the largest in America. It was in the rail industry that the first industrial pension was established in 1874. By the mid-1920's more than 80 percent of all rail workers were covered by pension plans.

In the early 1930's these pension plans began to face enormous financial problems. The commercial success of the rail industry peaked in the period between 1900 and 1920, and rail employment decreased significantly in the 1920's.

Rail pension plans were for the most part poorly constructed. There was no regulation of plan terminations, which were frequent. Pension funds were chronically underfinanced, and most could not stand the financial exigencies of the depression.

These problems plus a tradition of Federal regulation of the railroads led to the enactment of the Railroad Retirement Act of 1934.

The original railroad retirement system was structured to provide annuities to retirees based on rail earnings and length of service. Benefits were disbursed for retirees at age 65, although workers with 30 years of service could retire at 60, with a reduction in payments. The original disability provisions were very stringent, and little was provided for dependents, and nothing for spouses.

Throughout its history, the railroad retirement system has been modified many times by Congress. In the late 1940's and 1950's benefits were liberalized, and the railroad retirment system was brought into closer conformity with social security. For instance, in 1946, benefits were extended to survivors, based on combined railroad and social security covered employment. This extension represented a concern for the social goal of providing income security in old age, or social insurance, rather than simply rewarding career performance.

In the past decade and a half, the railroad retirement system has encountered recurrent financial crises as a result of employment declines in the industry, inflation, and the increase in the number of beneficiaries. Major legislation was enacted in 1974, 1981, and 1983 to prevent the system from becoming insolvent.

RECENT LEGISLATION

In 1981 Congress took action (Public Laws 97-34 and 97-35) designed to insure the financial solvency of the railroad retirement system until 1990. These changes included both benefit reductions and tax increases.

The Committee on Ways and Means included in the Economic Recovery Tax Act (Public Law 97-34) payroll tax rate increases for both employers and employees and a limited authority to borrow against the financial interchange with social security. The Committee on Energy and Commerce also included this borrowing authority, benefit changes, and a "benefit preservation mechanism" in the 1981 Reconciliation Act (sec. 1126(b), Public Law 97-35).

Under this mechanism, as in effect prior to the passage of Public Law 98-76, the Railroad Retirement Board (RRB) must report to Congress and the President on or before April 1 of any fiscal year in which the Board determines that it would borrow 50 percent or more of the amount available under the borrowing authority. This report must include, among other things, an estimate of the first year in which the borrowing authority would be exhausted and benefits would have to be reduced in the absence of "funding adjustments."

A further requirement of this benefit preservation mechanism is that within 180 days of the submission of this report, the Board must issue regulations and publish them in the Federal Register. The regulations must provide for reducing benefits to the extent necessary so that payments would not exceed the funds available.

The regulations are also to provide that non-Social Security benefits (tier II) are to be reduced first. The reductions would apply beginning with the first month of the fiscal year designated in the report as being the first fiscal year during which insufficient funds would preclude the payment of full benefits for the full year.

On February 18, 1983, the RRB issued the first report required under section 22. That report indicated that in the absence of corrective action, fiscal year 1984 would be the first year in which insufficient funds would preclude the payment of full benefits to all beneficiaries throughout the year. The report further indicated that rail employment had decreased faster than had been estimated prior to passage of the 1981 amendments, decreasing from 505,000 in 1981 to 440,000 in 1982. The regulations required to be promulgated were published in the Federal Register on July 7, 1983. If they had been implemented, these regulations would have provided for a reduction of approximately 40 percent in tier II benefits, effective October 1, 1983.

In order to avoid the benefit reduction which would have been required as a result of the benefit preservation mechanism, Congress enacted the Railroad Retirement Solvency Act of 1983 (Public Law 98-76).

A summary of those railroad retirement provisions included in Public Law 98-76 which were reported by the Committee on Ways and Means include the following:

(1) Provide three equal tax rate increases for both employer (1 percent) and employees (0.75 percent), effective on January 1, 1984, January 1, 1985, and January 1, 1986.

(2) Apply railroad retirement tier I and II taxes to an annual amount equal to 12 times the current applicable monthly wage base. (Effective on January 1, 1985.)

(3) Tax vested dual benefits as a private pension and deposit proceeds to the Railroad Retirement Account until fiscal year 1989. Beginning in fiscal year 1989, the proceeds from the tax will be deposited in the Dual Benefits Payments Account. (Effective with benefits received on or after January 1, 1984.)

(4) Tax tier II benefits as a private pension and return proceeds to the Railroad Retirement Account until the earlier of fiscal year 1989; or the time when the amount of revenue transferred under this provision equals $877 million. Beginning in fiscal year 1989 the proceeds from the tax would be deposited in the general fund. (Effective with benefits received on or after January 1, 1984.)

(5) Accelerate the employer payroll tax deposit schedule, to conform to the FICA deposit schedule. (Effective on January 1, 1984.)

(6) Create a "Social Security Equivalent Benefit Account" and deposit in the account all "social security equivalent" revenues. Pay all social security equivalent benefits out of the account. (Effective on October 1, 1984.)

(7) Provide that on July 1, 1985, and each subsequent July 1, the Railroad Retirement Board shall submit to the Congress a report on the actuarial status of the railroad retirement system and make any recommendation for financing changes that might be advisable, including adjustments in the level of

tier II tax rates and the feasibility of diverting part of the employer portion of those rates to the Railroad Unemployment Insurance Account to aid in repayment of its debt to the Railroad Retirement Account.

BENEFIT STRUCTURE

The 1974 Railroad Retirement Act established three benefit components. The ongoing benefit system was divided into two "tiers," one of which roughly approximates social security (tier I), and the other, an industry staff retirement benefit (tier II). The third component preserved certain benefits for employees who had qualified for both railroad retirement and social security benefits prior to the 1974 act.[1]

Tier I

These benefits are based on the social security formula, using both the employee's combined railroad earnings and non-railroad social security covered earnings up to the social security maximum wage base. The tier I benefit is roughly equal to what the social security benefit would have been had the worker's railroad employment been covered by the social security program. Because the railroad retirement tier I benefit is based on both social security and railroad employment, any social security benefit to which the railroad retirement system beneficiary is also entitled is subtracted from the tier I benefit amount. Tier I benefits are adjusted for the cost-of-living by the same percentage as social security benefits. For the purposes of the Balanced Budget and Emergency Deficit Control Act, tier I benefits are exempt from automatic spending reductions.

Tier II

Tier II benefits are based on the employee's service in the railroad industry alone and are payable in addition to the tier I benefit amount. For current retirees, the tier II benefit is equal to seven-tenths of 1 percent of the employee's average monthly earnings in the 60 months of highest earnings, times the total number of years of railroad service, less 25 percent of any employee vested dual benefit also payable. Effective in 1985, tier II benefits are automatically adjusted annually on January 1 at a rate equal to 32.5 percent of the social security automatic cost-of-living adjustment. (However, the 1986 tier II increase was suspended under the Balanced Budget and Emergency Deficit Control Act of 1985.)

Beginning in January 1984, the dollar amount of the next 5 percent of tier I cost-of-living increases were subtracted from tier II benefits. Since the 1984 increase was 3.5 percent, a further 1.5 percent tier II offset was made in 1985 so that the total offset is 5 percent of the 1983 tier I amount.

---

[1] In addition to the payment of benefits, expenditures from the Railroad Retirement Account can also be made in the form of loans to the Railroad Unemployment Insurance Account. The authority of the Railroad Unemployment Insurance Account to borrow from the Railroad Account was to expire on September 30, 1985, but was extended through December 19, 1985. At the end of fiscal year 1985 the debt to the retirement account equalled $783 million; having increased from $671 million at the end of fiscal year 1984, $575 million at the end of fiscal year 1983, and $286 million in fiscal year 1982.

Dual benefit payments

One of the chief purposes of the Railroad Retirement Act of 1974 was to coordinate railroad retirement and social security benefit payments to eliminate certain dual benefits considered to be a "windfall" for persons receiving benefits under both systems.

This "windfall" was a result of the fact that the total benefit which these retirees received from both systems was higher than the benefit which they would have received if their benefit was based on their total career earnings but paid under only railroad retirement. The total benefit was higher in these cases since the social security benefit formula favors workers who have low average earnings throughout their careers. Low career average earnings result from a career of low wages or from a relatively short career in social security covered employment. Workers who spend a period of time in employment not covered by social security, such as railroad employment, receive the benefit of this "tilt" in the benefit formula, even though they may very well not have had low career earnings.

As a result of the 1974 Act, "windfall" benefits were eliminated for any employees not qualified for such benefits as of January 1, 1975. They were generally preserved for those individuals who were vested under both the railroad retirement and social security systems before 1975. These vested dual benefits are financed out of the general revenue fund through an annual appropriation rather than from the social security or railroad retirement trust funds. (Under the Balanced Budget and Emergency Deficit Control Act of 1985, vested dual benefit payments may be reduced during fiscal year 1986 as a controllable expenditure.)

The costs of these payments, which were intended to be funded solely out of U.S. general revenues, have proven to be substantially more than the amount which was estimated at the time the 1974 act was passed, and substantially more than the funds that have been appropriated annually. The following table details the amount estimated to be necessary to pay vested dual benefits, the amount which has been requested and the amount actually appropriated.

This resulted in an unanticipated expense to the railroad retirement account since the full vested dual benefit paid from the retirement account was only partially offset through appropriated general revenue. (See "general revenue appropriations" below for further information.)

TABLE 1.—COMPARISON OF RAILROAD RETIREMENT BOARD ESTIMATES AND APPROPRIATIONS

[In millions of dollars]

	Board estimates [1]	Requested appropriations	Actual appropriations
Fiscal year:			
1976	$250	$250	$250
1977	350	250	250
1978	356	250	250
1979	363	313	313
1980	363	313	313
1981	529	350	350
1982	440	350	390
1983	430	350	430
1984	420	350	420
1985	405	405	405
1986	392	392	[2] 375

[1] For fiscal years 1976 through 1981, the amount shown in this column is the Railroad Retirement Board's revised annual estimate of the amount needed each year, on a level basis, from the year of the estimate to the year 2000, to cover expected benefit costs. For fiscal year 1982 and later, the amount shown is the amount estimated necessary to pay benefits for that year.

[2] Amount reflects planned reductions under the Balanced Budget and Emergency Deficit Control Act of 1985.

Source: Railroad Retirement Board.

Supplemental annuities

These are provided under the 1974 Act equal to $23 for 25 years of service plus $4 for each additional year up to a maximum of $43 per month. However, as a result of the 1981 Omnibus Budget Reconciliation Act, employees hired after October 1, 1981 are not eligible for supplemental annuities when they retire.

Lump sum death benefits

These benefits are paid when there is no person eligible for a monthly survivor benefit in the month in which the worker died. Generally, 10 years of railroad service and a current connection with the railroad industry are required. For employees with 10 or more years of railroad service before 1975, the amount is based on the 1937 Act. For all other railroad workers, the amount is equivalent to that which would be paid under the Social Security Act (unless survivor benefits are paid).

Table 2 provides data concerning all railroad retirement benefits being paid at the end of selected fiscal years. Table 3 presents data on new awards for November 1985.

TABLE 2.—NUMBER AND AVERAGE AMOUNT OF RETIREMENT AND SURVIVOR ANNUITIES IN CURRENT-PAYMENT STATUS AT END OF YEAR FOR SELECTED YEARS BY TYPE OF ANNUITANT

Fiscal year	Total	Type of beneficiary										
		Retired employees			Spouses	Divorced spouses	Aged widows	Disabled widows	Widowed mothers	Divorced and remarried widows	Children	Parents
		Age	Disability	Supplemental								
Number at end of year:												
1971	1,067,121	348,737	95,364	81,611	212,075	....	278,741	2,972	8,076	....	39,096	449
1975	1,160,312	359,826	101,677	141.525	219,644	....	290,502	5,108	7,061	....	34,670	299
1977	1,201,059	364,402	99,672	169,257	230,758	....	292,653	6,206	6,298	....	31,566	243
1979	1,204,719	358,629	96,818	182,736	233,611	....	292,073	6,770	5,406	....	28,478	198
1980	1,203,006	355,983	95,218	188,111	233,916	....	290,315	6,999	4,985	....	27,288	189
1981	1,202,364	354,608	93,743	193,436	233,977	....	288,606	7,249	4,478	....	26,094	(1)
1982	1,200,427	352,609	92,146	197,885	237,839	(2)	286,193	7,376	4,053	(3)	22,172	158
1983	1,193,226	349,892	89,684	201,409	232,367	(2)	288,454	7,509	3,153	(3)	20,614	144
1984	1,182,606	345,842	87,924	202,055	228,978	1,455	279,383	7,425	2,908	7,276	19,226	134
1985	1,165,202	339,696	85,685	201,140	225,587	1,697	274,954	7,465	2,655	8,355	17,845	123

TABLE 2.—NUMBER AND AVERAGE AMOUNT OF RETIREMENT AND SURVIVOR ANNUITIES IN CURRENT-PAYMENT STATUS AT END OF YEAR FOR SELECTED YEARS BY TYPE OF ANNUITANT—Continued

Fiscal year	Total	Type of beneficiary										
		Retired employees			Spouses	Divorced spouses	Aged widows	Disabled widows	Widowed mothers	Divorced and remarried widows	Children	Parents
		Age	Disability	Supplemental								
Average amount:												
1971		$201	$186	$65	$95		$114	$115	$158		$112	$110
1975		329	309	62	153		233	200	234		206	187
1977		387	355	57	178		267	228	275		248	223
1979		461	419	54	210		314	265	336		300	273
1980		526	477	53	236		361	302	392		349	310
1981		579	525	52	251		401	331	442		393	(1)
1982		641	576	51	280	(2)	430	354	475	(3)	399	368
1983		663	593	50	287	(2)	432	355	475	(3)	394	367
1984		682	609	49	293	167	441	415	478	269	400	369
1985		711	639	49	305	174	455	427	487	284	415	375

[1] Not available
[2] Included with spouse annuities.
[3] Included with aged and disabled widow and widowed mother annuities.

Note.—Data exclude survivor (option) annuities. On September 30, 1985, there were 108 option annuities in current-payment status averaging $94. Figures for widows include a small number of widowers.
Source: Railroad Retirement Board.

TABLE 3.—NUMBER AND AVERAGE AMOUNT OF NEW AWARDS BY BENEFICIARY TYPE, NOVEMBER 1985

	Number	Average amount
Employee annuities:		
Retired	1,551	$958
Disability (under age 65)	266	915
Supplemental	1,060	42
Spouse annuities	1,292	326
Divorced spouse annuities	26	198
Survivor benefits:		
Aged widows and widowers	1,082	568
Disabled widows and widowers	27	452
Widowed mothers and fathers	34	445
Divorced and remarried widows	113	325
Children	86	476
Parents		
Insurance lump sums	355	831
Residual payments	18	5,840
Total	5,910	

Source: Railroad Retirement Board.

FINANCING THE RAILROAD RETIREMENT SYSTEM

Railroad retirement and survivor benefits are financed by six sources of income. These are (1) payroll taxes on railroad earnings paid by covered employees and employers up to a certain maximum wage base; (2) income from the social security financial interchange; (3) proceeds derived from the taxation of railroad retirement benefits; (4) appropriations from general revenues; (5) interest on investments; and (6) a cents-per-hour tax levied on carriers only.

Payroll Taxes

The primary source of income to the railroad retirement account is payroll taxes levied on covered employers and their employees. Currently, both employers and employees pay a "tier I" tax which is equivalent to the social security tax rate. In addition, a "tier II" tax is paid by both rail employers and employees. The 1986 annual tier I and tier II wage bases are $42,000 and $31,500, respectively.

The scheduled tax rates for both tier I and tier II are as follows:

	Tier I		Tier II		Combined	
	Employer	Employee	Employer	Employee	Employer	Employee
1984	7.00	[1] 7.00	12.75	2.75	19.75	9.75
1985	7.05	7.05	13.75	3.50	20.80	10.55
1986	7.15	7.15	14.75	4.25	21.90	11.40
1987	7.15	7.15	14.75	4.25	21.90	11.40
1988	7.51	7.51	14.75	4.25	22.26	11.76
1989	7.51	7.51	14.75	4.25	22.26	11.76
1990 and later	7.65	7.65	14.75	4.25	22.40	11.90

[1] A credit of 0.3 percent of wages will be allowed against the 1984 employee tax rate. Appropriation to the Social Security Equivalent Benefit Account will be based on the 7.00 percent rate.

The tier I wage base is generally identical with the social security wage law and automatically increases with wage growth in the economy. The tier I wage base is estimated by the Social Security Administration to be as follows:

1986	41,100
1987	43,500
1988	45,600
1989	48,600
1990	51,600
1991	51,600

The tier II wage base is equal to what the social security tax rate would have been without regard to the ad hoc increases in the taxable wage base which were provided by the Social Security Amendments of 1977 (Public Law 95–215). The tier II wage base is estimated by the Social Security Administration to be as follows:

1986	30,900
1987	32,700
1988	34,500
1989	36,600
1990	38,700
1991	38,700

Financial Interchange

The railroad retirement system and the social security programs have been coordinated financially since 1951. The purpose of the financial interchange is to place the social security trust funds in the same position they would have been in if railroad employment had been covered under social security since its inception.

TABLE 4.—AMOUNTS TRANSFERRED TO OR FROM (–) THE RAILROAD RETIREMENT ACCOUNT AND THE VARIOUS SOCIAL SECURITY TRUST FUNDS IN FISCAL YEARS 1954 THROUGH 1985

[In millions of dollars]

	OASI	DI	HI	Total
Fiscal year:				
Through June 30, 1954	–21.1			–21.1
1955	–7.4			–7.4
1956	–5.2			–5.2
1957	–1.6			–1.6
1958	124.4			124.4
1959	282.0	–22.0		260.0
1960	318.4	–4.9		313.5
1961	331.7	5.1		336.8
1962	360.8	11.0		371.8
1963	422.5	19.6		442.1
1964	402.6	19.1		421.7
1965	435.6	23.6		459.2
1966	443.8	25.0		468.8
1967	508.0	30.6	–16.3	522.3
1968	437.6	20.4	–44.0	414.0
1969	491.5	21.3	–54.2	458.6
1970	578.8	10.4	–63.5	525.7
1971	613.0	13.2	–65.9	560.3
1972	724.3	24.2	–66.1	682.4
1973	783.0	19.5	–63.2	739.3
1974	908.6	22.3	–99.2	831.7
1975	981.8	28.5	–132.5	877.8
1976	1,212.3	26.4	–137.7	1,101.0
1977	1,207.8	–0.3	–142.9	1,064.6
1978 [1]	1,588.7	29.8	–213.7	1,404.8
1979	1,447.5	29.9	–191.1	1,286.3
1980	1,442.0	–12.1	–244.3	1,185.6
1981	1,584.9	29.4	–276.5	1,337.8
1982	1,793.3	26.4	–351.4	1,468.3
1983	2,250.8	27.8	–357.7	1,920.9
1984	2,404.0	21.6	–350.6	2,075.0
1985 [2]	2,310.2	42.7	–371.4	1,981.5
Total	26,354.6	488.5	–3,242.2	23,600.9

[1] Includes transfers for July–September 1976 transition quarter.

[2] Railroad Retirement Board assumptions used for 1984 OMB mid-session review.

Source: Railroad Retirement Board.

Generally, under the interchange, for a given fiscal year there is computed the revenue that would have been collected by the social security trust funds if railroad employment had been covered directly by social security. This amount is netted against the amount of benefits social security would have paid to railroad beneficiaries based on railroad and nonrailroad earnings during that period. Where social security benefits that would have been paid exceed income to the trust funds that would have been due, the excess, plus an allowance for interest and administrative expenses, is transferred from the social security trust funds to the Railroad Retirement Account. If income exceeds benefits, the transfer would be from the Railroad Retirement Account to the social security trust funds.

The determination of the amount to be transferred through the financial interchange for a given fiscal year is made no later than June of the year following the close of the preceding fiscal year. Table 4 shows the actual operation of the financial interchange as it relates to each of the three major social security trust funds.

In order to make available to the Railroad Retirement Account funds from the forthcoming financial interchange on a more current basis, the Railroad Retirement Solvency Act of 1983 provides for transfers from general Treasury funds to the Railroad Retirement Account for each month an amount equal to the social security level benefits paid from the account during the month less the social security level taxes received by the account in that month. The amount so transferred for a particular month is repaid when the social security system makes reimbursement for that month under the financial interchange program.

Taxation of benefits

Prior to 1984, railroad retirement benefits, with the exception of supplemental annuities, were not subject to Federal income taxation. However, as a result of the Railroad Retirement Solvency Act (Public Law 98-76) and the Social Security Act Amendments of 1983 (Public Law 98-21), certain tier I, and all tier II, and vested dual benefits received after December 31, 1983, are subject to taxation.

Tier I benefits are taxed in a manner identical to social security benefits. The proceeds derived from the taxation of those tier I benefits which are equivalent to social security benefits will be deposited in the newly created Social Security Equivalent Benefit Account and credited to the social security trust funds through adjustments in the financial interchange. The revenue raised through the taxation of tier I benefits which are not equivalent to social security benefits is deposited in the Railroad Retirement Account. Tier II benefits are taxed in a manner identical to private pensions and the proceeds are deposited in the Railroad Retirement Account until fiscal year 1989 or until the amount of revenue transferred under this provision equals $877 million, if earlier. Vested dual benefits are taxed as a private pension with the proceeds derived deposited in the Railroad Retirement Account until fiscal year 1989 and in the Dual Benefits Payments Account thereafter.

General revenue appropriations

Vested dual benefits are funded solely through general revenue appropriations. The Congress authorized such funding in the 1974 act through the year 2000. The total appropriated for the first 10 fiscal years for which these benefits were payable, 1976–1985, was $3,371 million. (See table 1 for the annual appropriation amounts.)

The Omnibus Budget Reconciliation Act of 1981 (Public Law 97-35) established a Dual Benefits Payments Account. Each year an amount which is appropriated for the payment of vested dual benefits will be placed into this account from which these payments will be made to beneficiaries. If the amount which is appropriated is insufficient to pay the full vested dual benefits to all eligible beneficiaries for a full year, the Railroad Retirement Board is authorized to prorate payments from the dual benefits account so that the amounts paid do not exceed the amounts appropriated.

In addition to amounts transferred to the Dual Benefits Payments Account annually through the regular appropriations process, the Railroad Retirement Solvency Act of 1983 provided for the appropriation of approximately $1.7 billion to the Railroad Retirement Account in three installments paid on Jan. 1, 1984, 1985, and 1986. These three appropriations, were to reimburse the Railroad Retirement Account for prior shortfalls in the annual appropriations. The actual amounts received totaled $2.1 billion.

Interest from investments

Funds not needed immediately for benefit payments are invested in interest-bearing securities. During fiscal year 1985 the Railroad Retirement Account and Social Security Equivalent Benefit Account received $424 million in interest income from invested assets. This represents an annualized yield of 11.18 percent.

Cents-per-hour tax

A cents-per-hour tax is used to fund the supplemental annuity benefit. This tax is levied solely on employers. The rate is determined quarterly by the Railroad Retirement Board.

FINANCIAL STATUS OF THE RAILROAD RETIREMENT ACCOUNT

One of the most important factors affecting the financial status of the railroad retirement system is the level of employment in the industry. The recent history of industry employment follows:

TABLE 5.—HISTORIC LEVELS OF INDUSTRY EMPLOYMENT, 1940–85

[In thousands]

1940	1,195
1945	1,085
1950	1,421
1955	1,239
1960	909
1965	753
1970	640
1975	548
1976	540
1977	546
1978	542
1979	554
1980	532
1981	503
1982	440
1983	395
1984	396
1985	373

Source: Railroad Retirement Board.

The Railroad Retirement Board annually prepares projections of the railroad retirement system's ability to pay benefits during the succeeding 5 years. The most important factor in a determination of the system's ability to pay benefits is the future level of railroad employment. The most recent projections prepared by the Board were developed on the basis of two assumptions regarding the course of railroad employment during the next 5 years. The higher assumption was developed as a reasonable estimate of future railroad employment. The lower assumption is deliberately pessimistic and represents a test of the system's ability to pay benefits if a sharper drop in employment takes place than is presently anticipated.

The assumptions, and the resulting December 31 fund balances, are shown in the following table. The employment assumptions are in thousands and the fund balances are in millions. Because of the interrelationships between the Railroad Retirement and Social Security Equivalent Benefit (SSEB) Accounts, balances of the latter account are independent of assumed employment levels, all variation in available funds being reflected in the Railroad Retirement Account. The results indicate that the system will be able to meet its obligations through 1991, even under a pessimistic employment assumption.

TABLE 6.—TRUST FUND BALANCES UNDER THE COMBINED RAILROAD RETIREMENT AND SOCIAL SECURITY EQUIVALENT BENEFIT ACCOUNTS (END OF YEAR) UNDER TWO EMPLOYMENT ASSUMPTIONS

[Dollars in millions, other amounts in thousands]

Calendar year	Employment assumption		SSEB balance	RRA balance, employment assumption	
	I	II		I	II
1986	360	355	−$187	$5,733	$5,702
1987	345	335	−144	6,458	6,359
1988	330	315	−93	6,884	6,675
1989	320	300	−34	7,088	6,727
1990	310	285	30	7,191	6,630
1991	300	270	99	7,144	6,337

The SSEB was established effective October 1, 1984, by the Railroad Retirement Solvency Act of 1983. It pays the social security level of benefits and administrative expenses allocable to those benefits. It receives as income the continuous flow of social security level employment taxes (tier I taxes) and the financial interchange reimbursement payment from social security which is made once each year. When it was established on October 1, 1984, the SSEB had no balance. It was, however, immediately liable for the social security level of benefits payable on that day. It had to borrow to pay these benefits. Most of the revenue it received during the rest of the month was used to make repayment on this loan. Thus, it again had to borrow money to pay the next month's benefits. This cycle will continue, and the SSEB will be negative, until the account builds up a sufficient balance to pay benefits without borrowing. Such a surplus will eventually develop because in a relatively small number of cases, railroad retirement does not pay benefits when social security would pay benefits. In these cases, mainly dependent children of retired living employees, the SSEB collects an amount through the annual financial interchange reimbursement which the SSEB does not pay out in corresponding benefits. This imbalance between outgo and income is small in any particular year, but over many years a substantial fund builds. Any surplus that develops is further augmented by the interest it earns.

Section 13. Railroad Unemployment Compensation System

The railroad unemployment compensation (RRUC) system has been in existence since 1938. Railroad workers were initially covered by the unemployment provisions of the Social Security Act of 1935. The Railroad Unemployment Insurance Act (Public Law 75-722) was passed in 1938 to provide a uniform unemployment insurance system for all railroad workers, regardless of the State in which they worked or lived. This was done largely because of administrative problems at that time in handling claims for railroad workers who earned wages in a number of different States and as a result of the railroad unions' desire that individuals throughout the industry be treated the same for purposes of unemployment compensation.

BENEFITS AND ELIGIBILITY REQUIREMENTS

A worker must have at least $1,500 of creditable, railroad earnings in the base year to qualify for RRUC benefits. In addition, if the worker has not worked in the railroad industry previously, he must have railroad earnings in at least 5 months of the base year. (The base year is the calendar year before the beginning of the benefit year which begins on July 1 for all claimants.) The first $600 of railroad earnings in each month are creditable toward the qualifying earnings requirement. Up to $775 per month in the base year is creditable toward the maximum benefit.

An unemployed worker who meets the qualifying requirements can receive RRUC benefits for each "day of unemployment." An individual, however, cannot receive benefits for more than 10 days of unemployment in any 2-week period. In order to receive a daily benefit, a worker must be able to work and be available for railroad work. He must also register for work at the railroad unemployment office.

A qualified, unemployed railroad worker may receive a daily unemployment compensation benefit equal to 60 percent of his last daily rate of pay in the base year, up to a maximum of $25. The minimum daily benefit is $12.70. The equivalent weekly RRUC benefit ranges from $63.50 to a maximum of $125 (5 times the $25 daily payment). The weekly maximum has been $125 since 1976. Railroad unemployment and sickness benefits are subject to reduction under the Balanced Budget and Deficit Reduction Act of 1985 (Gramm-Rudman).

The nominal average weekly amount in a benefit year has grown in spurts from $8 in 1940 to $125 in 1985. The average weekly benefit amount in constant 1982 dollars, however, declined by 37 percent, from a peak of $191 in 1975 to $125 in 1982. Moreover, the 1982 level was lower than the constant dollar level as long ago as 1958 when it was $138.

The program offers "normal" benefits and two categories of "extended" benefits. The duration of benefits varies by worker. Qualified workers can receive normal benefits for up to 130 days or 26 weeks, but the total may not exceed their creditable wages in the base year. Two groups of workers may get extended benefits:

(1) Workers with at least 15 years of railroad service may get up to 130 additional days, or up to an additional 26 weeks of benefits beyond the normal 26 weeks; and

(2) Workers with at least 10 but fewer than 15 years of railroad service may receive up to 65 additional days or 13 additional weeks.

TABLE 1.—PERMANENT BENEFITS UNDER THE RAILROAD UNEMPLOYMENT COMPENSATION PROGRAM AS OF JUNE 30, 1984

Qualifying wages	$1,500.
Daily benefit rate:	
Basic rate	60 percent of daily rate of pay.
Maximum	$25.00.
Minimum guarantee	$12.70.
Maximum normal benefits:	
For a 1-week period	$125.00.
For benefit year:	
Duration	130 compensable days.
Amount	$3,250.[1]
Maximum extended benefits:	
10–14 years service:	
Duration	65 compensable days.
Amount	$1,625.
15 or more years service:	
Duration	130 compensable days.
Amount	$3,250.

[1] Not to exceed the employee's taxable earnings in the base year counting earnings up to $775 a month.

Source: U.S. Railroad Retirement Board Handbook on Railroad Retirement and Unemployment Insurance Systems. January 1986.

The average duration of benefits fluctuates closely with the unemployment rate. In the 1940 through 1985 period, it ranged from 7.4 to 19.1 weeks and averaged 11.8.

In 1946, a program of cash sickness benefits was established for railroad workers as part of the unemployment compensation system. Sickness benefits are financed out of the same employer paid payroll taxes used to finance unemployment compensation benefits. A qualified railroad worker may receive sickness benefits if he files a "statement of sickness" signed by a doctor and mailed within 7 days of the first day for which a day of sickness is claimed.

A rail worker who is unemployed due to a strike legally authorized under the the Railroad Labor Act of 1926 can receive unemployment compensation benefits after a 14 day waiting period. Unemployment benefits cannot be paid to individuals participating in a strike that is in violation of the Railway Labor Act, and is therefore "illegal." Individuals who are unemployed due to an "illegal" strike, but who are not actually participating in the strike, are eligible for unemployment compensation benefits but are subject to the 14 day waiting period.

Total expenditures for unemployment and sickness payments were $170 million in benefit year 1985, which was 1.3 percent of total wages paid by the industry during the same period. This compares to a peak of 5.1 percent in 1959. It is also much lower than in benefit year 1983, a recession year, when the figure was 3.9 percent. Since the beginning of sickness benefits, unemployment benefits have composed about two-thirds of total payments. In 1985, unemployment benefits accounted for 74 percent of the total.

Benefit payments vary directly with the insured unemployment rate, covered employment, average weekly benefit amount, and average duration of benefits. The insured unemployment rate is the percentage of workers qualified under the RRUC program who drew benefits in a particular benefit year. The railroad insured unemployment rate has been high and volatile since the beginning of the RRUC program, averaging 14 percent. Since 1946 it has ranged from a relatively low 7 percent to 30 percent in benefit year 1983.

Changes in covered employment have short-run and long-run effects on the RRUC program. In the short run, when layoffs cause employment to decline, the insured unemployment rate and benefits paid increase. In the long run, when employers have fewer workers to layoff, benefits decline and the program shrinks. Since the peak of 1,680,000 workers in calendar year 1945, railroad employment declined to 373,000 in 1985. Two-thirds of this decline occurred in the 16 years between 1945 and 1961. In the 24 years since then, the remaining one-third of the decline occurred. In other words, the average annual rate of decline through 1961 was 53,000, but after 1961 it was 20,000.

TAXES

The railroad unemployment and sickness benefit program is financed by payroll taxes paid by railroad employers. The employees themselves do not contribute. Effective January 1, 1984, the taxable earnings base is the first $600 of each employee's monthly earnings.

The payroll tax rate is determined from a schedule in the Railroad Unemployment Insurance Act and may vary from 0.5 percent to 8 percent. This method of financing is, in effect, an experience rating plan on an industrywide basis. For any particular calendar year, the tax rate depends on the balance in the Railroad Unemployment Insurance Account, including the balance in the Railroad Unemployment Insurance Administration Fund, on the preceding September 30, as shown in the following schedule:

Balance to credit of Railroad Unemployment Insurance Account on September 30	Rate for next calendar year (percent)
$300,000,000 or more	0.5
$200,000,000 or more but less than $300,000,000	4.0
$100,000,000 or more but less than $200,000,000	5.5
$50,000,000 or more but less than $100,000,000	7.0
Less than $50,000,000	8.0

Railroad unemployment taxes are collected by the Railroad Retirement Board. Of each year's tax receipts, an amount equal to 0.5 percent of taxable payroll is set aside for administration. As a result, annual appropriations from general revenues for administration of the unemployment and sickness program are not required. Excess funds allocated but not needed for administration are transferred to the Railroad Unemployment Insurance Account at the end of such fiscal year.

The Railroad Unemployment Insurance and Railroad Administration Accounts are part of the Federal Unemployment Trust Fund. This trust fund has 53 State UC program accounts, 4 Federal accounts, and the 2 railroad accounts.

Despite occasional increases in the tax rates and taxable wage base, taxes and reserves have not covered RRUC unemployment and sickness benefit payments in 20 of the last 26 years. The tax rate on taxable wages increased to 8 percent in 1977 and 1978; dropped to 7.0 percent in 1979 and to 5.5 percent in 1980; and rose to 8.0 percent in 1981 through 1985. The monthly taxable wage base was increased from $300 to $350 in 1954; to $400 in 1959 and to $600 in 1984. As a result, the taxable wage base in constant dollars had declined dramatically. The monthly taxable wage base would have been approximately $2,200 in 1984 if Congress had maintained the real value of the $300 taxable wage base in effect in 1940. In other words, the industry has taxed progressively less of total annual wages paid. The ratio of taxable wages to total wages had declined from 99 percent in 1940 to only 16 percent in 1983. This figure rose to 23 percent in 1984 with the introduction of the higher taxable wage base.

Since 1959, the railroad unemployment trust fund has been able to borrow funds from the railroad pension fund when employer taxes have not been sufficient to cover the costs of unemployment and sickness benefits. This borrowing authority expired on December 19, 1985. In the past, borrowed funds have been repaid. The RRUC program became depleted for the first time in 1960 after a long decline from peak reserves of nearly 18 percent of total annual wages in 1948. By 1963, it owed the retirement account $314 million, or 5.9 percent of total annual wages paid in the industry that year. The program gradually recovered during the 1960s until it had positive reserves again in 1974. Thereafter, the reserves were depleted again in 1976 through 1978, and 1981 through 1985.

A rapid decline in 1981 and 1982 in railroad employment resulted in substantial borrowing from the pension system. By December 31, 1985, the RRUC program owed the railroad pension system $804 million. This is about 7 percent of total wages projected to be paid in the industry that year.

Prior to the passage of the Railroad Retirement Solvency Act of 1983 (Public Law 98-76), there were no specific requirements or procedures for the repayment of funds the RRUC system borrowed from the rail pension system. In general, loans have been repaid whenever, and to the extent, RRUC program tax receipts in a year exceeded that year's benefit, administration and debt service costs.

Public Law 98-76 established, as part of the Federal Unemployment Tax Act (FUTA), a railroad unemployment repayment tax. This repayment tax will operate similarly to the FUTA tax that is paid by non-railroad industries in States with overdue Federal unemployment loans. Beginning on July 1, 1986, rail employers will pay a tax of 2.0 percent on the first $3,500 in annual wages paid to each employee through the end of the year. The tax base will be $7,000 per employee for calendar years 1987-89, and $5,250 for the first 9 months of 1990. The tax rate will increase 0.3 percent on each subsequent January 1 beginning in 1987. The revenue raised by this tax can be used only to repay loans (principal and interest) from the rail pension system. The tax expires on September 30, 1990, at which time the balance owed the rail pension system will be approximately $800 million.

PART 3

REVENUES

Section 1. Summary Information
Section 2. Bibliographic Information

BLANK PAGE

Section 1. Summary Information

This part provides summary information regarding Federal revenues and the U.S. tax system. Most, but not all, budget receipts are derived from taxes. Table 1 shows budget receipts, by source, for recent years. Table 2 indicates the relative significance of the major types of receipts. Over recent years the relative significance of corporate income taxes has declined; social insurance taxes and contributions have increased as a share of the total.

Table 3 provides information on the number of tax returns, by type filed in 1981 through 1984. The gross amount of taxes collected exceeds net collections by the amount of refunds. As indicated in table 4, individual income tax refunds during fiscal year 1985 were 16 percent of gross collections.

The sources of income reported on individual income tax returns for 1982 and 1983 are listed in table 5 along with additional summary information. About 96 million individual income tax returns were filed for the 1983 taxable year. The number of exemptions listed on these returns, 234 million, approximately equaled the U.S. population, though the extra exemptions for those over 65, certain students, and the blind result in the double counting of certain individuals in arriving at the total number of exemptions claimed. Wages and salaries represented about 85 percent of reported adjusted gross income. Tax liabilities represented nearly 15 percent of adjusted gross income.

About 37 percent of all taxpayers itemized their deductions on individual income tax returns for 1983 (see table 6 for a comparison with prior years). These deductions, by type, are shown in table 7. Statutory adjustments used in calculating tax liabilities for 1983 are shown in table 8. Information on tax credits claimed by individuals is shown in table 9.

The distribution of tax liabilities and income by adjusted gross income class, based on information contained on 1983 tax returns, is displayed in table 10.

The most recently published information for corporate income tax returns is summarized in table 11. Of the 2.4 million returns filed by regular, active corporations for 1982, only 39 percent had a tax liability, after accounting for tax credits and carryover losses. Slightly fewer than 1 million corporations paid total taxes of $46.7 billion.

Table 12 presents the summary findings of the studies published by the staff of the Joint Committee on Taxation with respect to the effective tax rates of large corporations for 1982 and 1983. The average effective U.S. tax rate on U.S. source income was about 16 percent in 1982 and 17 percent in 1983. The variation in effective rates among industries was significant in both years. Those studies should be consulted for the methodology involved in calculating effective tax rates.

The term "tax expenditures" is widely used to denote the decrease in individual and corporate income tax liabilities that result from provisions in income tax laws and regulations that provide economic incentives to the private sector or tax relief to particular kinds of taxpayers. These tax provisions take the form of exclusions, credits, deductions, preferential tax rates, or deferrals of tax liability. Table 13 presents the most recent tax expenditure estimates for fiscal year 1985. For a more complete discussion of the tax expenditure concept, the source listed in the table should be consulted.

TABLE 1.—BUDGET RECEIPTS BY SOURCE, 1977–85

[In billions of dollars]

Description	1977	1979	1981	1983	1985
RECEIPTS BY SOURCE					
Individual income taxes	157.6	217.8	285.9	288.9	334.5
Corporation income taxes	54.9	65.7	61.1	37.0	61.3
Social insurance taxes and contributions:					
Employment taxes and contributions	92.2	120.1	163.0	185.8	234.6
Unemployment insurance	11.3	15.4	15.8	18.8	25.8
Other retirement contributions	3.0	3.5	4.0	4.4	4.8
Total social insurance taxes and contributions	106.5	138.9	182.7	209.0	265.2
On-budget	(29.7)	(40.9)	(52.5)	(61.7)	(79.0)
Off-budget	(76.8)	(98.0)	(130.2)	(147.3)	(186.2)
Excise taxes:					
Alcohol	5.3	5.5	5.6	5.6	5.6
Tobacco	2.4	2.5	2.6	4.1	4.8
Highway	6.7	7.2	6.3	8.3	13.0
Airport and airway	1.2	1.5	(1)	2.2	2.9
Windfall profit tax			23.3	12.1	6.3
Other	2.0	2.0	3.1	3.0	3.4
Total excise taxes	17.5	18.7	40.8	35.3	36.0
Estate and gift taxes	7.3	5.4	6.8	6.1	6.4
Customs duties	5.2	7.4	8.1	8.7	12.1
Miscellaneous receipts	6.5	9.3	13.8	15.6	18.5
Total receipts	355.6	463.3	599.3	600.6	734.1
On-budget	(278.7)	(365.3)	(469.1)	(453.2)	(547.9)
Off-budget	(76.8)	(98.0)	(130.2)	(147.3)	(136.2)

[1] Less than $50 million.

Source: The United States Budget in Brief, Fiscal Year 1987, Executive Office of the President, Office of Management and Budget, p. 80.

TABLE 2.—BUDGET RECEIPTS BY SOURCE, 1977 AND 1985

	1977		1985	
	Amount (billions)	Percent of total	Amount (billions)	Percent of total
Individual income taxes	157.6	44.3	334.5	45.6
Corporation income taxes	54.9	15.4	61.3	8.4
Total social insurance taxes and contributions	106.5	29.9	265.2	36.1
Total excise taxes	17.5	4.9	36.0	4.9
Estate and gift taxes	7.3	2.0	6.4	0.9
Customs duties	5.2	1.5	12.1	1.6
Miscellaneous receipts	6.5	1.8	18.5	2.5
Total budget receipts	355.6	100	734.1	100

Source: The United States Budget in Brief, Fiscal Year 1987, Executive Office of the President, Office of Management and Budget, p. 80.

TABLE 3.—NUMBER OF RETURNS FILED, BY PRINCIPAL TYPE OF RETURN, CALENDER YEARS 1981–84

[In thousands]

Type of return	1981	1982	1983	1984
Income tax returns:				
Individual	94,018	95,481	95,284	96,288
Declaration of estimated tax	30,347	31,863	33,080	32,597
Fiduciary	1,197	1,964	1,994	2,013
Partnership	1,467	1,561	1,586	1,663
Corporation	2,806	2,950	3,078	3,129
Total income tax returns	130,555	133,819	135,022	135,690
Estate tax	146	135	111	90
Gift tax	199	99	91	87
Employment tax	26,063	25,835	25,537	26,133
Exempt organization	409	444	437	393
Employee plans	790	1,021	752	955
Alcohol, tobacco, and firearms	522	233	582	552
Excise tax	971	1,172	1,010	694
Supplemental documents	6,817	7,556	7,602	7,887
Non-Master file returns	56	55	30	32
Grand total	166,528	170,369	171,174	172,512

Source: Commissioner of Internal Revenue, Annual Report, 1981, 1982, 1983, and 1984.

TABLE 4.—INCOME TAX GROSS COLLECTIONS, REFUNDS, AND NET RECEIPTS, 1985

[In millions of dollars]

Individual income tax:	
Gross collections	400,274
Withheld	(298,941)
Other	(101,333)
Refunds	−65,743
Net receipts	334,531
Corporation income taxes:	
Gross collections	77,413
Refunds	−16,082
Net receipts	61,331

Source: Executive Office of the President, Office of Management and Budget, Budget of the U.S. Government, Fiscal Year 1987, p. 6e–23.

TABLE 5.—INDIVIDUAL INCOME TAX—SOURCES OF INCOME AND SELECTED TAX ITEMS, 1982 AND 1983

Items	Billions of dollars except as noted	
	1982	1983
Number of returns, total (millions)	95.3	96.3
Taxable	77.0	78.1
Nontaxable	18.3	18.2
Number of exemptions (millions)	232.2	234.4
Adjusted gross income less deficit	1,852.1	1,950.8
Sources of income:		
Salaries and wages	1,565.0	1,651.7
Pensions and annuities in adjusted gross income	60.1	70.1
Business and profession net profit less loss	50.6	58.8
Farm net profit less loss	−9.8	−8.6
Partnership net profit less loss	−.9	.3
Small Business Corporation net profit less loss	−.8	3.1
Sales of capital assets net gain less loss	34.4	45.5
Sales of property other than capital assets net gain less loss	.6	1.1
Dividends received	54.0	50.8
Interest received	157.0	152.9
Dividends and interest in adjusted gross income	209.2	200.9
Farm net rental income less loss	2.2	2.1
Rent net income less loss	−8.5	−9.7
Royalty net income less loss	6.3	5.5
Estate or trust net income less loss	5.7	6.0
All other sources (net)	3.0	5.4
Total statutory adjustments	64.9	81.6
Total itemized deductions	284.5	307.1
Taxable income	1,473.3	1,551.3
Zero bracket amount	241.5	NA

TABLE 5.—INDIVIDUAL INCOME TAX—SOURCES OF INCOME AND SELECTED TAX ITEMS, 1982 AND 1983—Continued

Items	Billions of dollars except as noted	
	1982	1983
Exemptions (amount)	232.1	234.4
Income tax before credits	283.9	282.0
Total credits	7.9	7.9
Income tax after credits	276.1	274.1
Additional tax for tax preferences—minimum tax	1.6	1.9
Total income tax	277.6	276.1
Self-employment tax	6.8	7.5
Total tax liability	284.7	283.9

Source: U.S. Department of the Treasury, Internal Revenue Service, Statistics of Income, Individual Income Tax Returns, 1982 and Advance Data, 1983 Individual Income Tax Returns.

TABLE 6.—INDIVIDUAL INCOME TAX RETURNS WITH ITEMIZED DEDUCTIONS, 1960–83

[In millions]

	Total individual returns [1]	Returns with itemized deductions	
		Number	Percent of total
1960	61.0	24.1	39.5
1965	67.6	27.9	41.3
1970	74.3	35.4	47.6
1972	77.6	27.0	34.8
1973	80.7	28.0	34.7
1974	83.3	29.6	35.5
1975	82.2	26.1	31.8
1976	84.7	26.0	30.7
1977	86.6	22.9	26.4
1978	89.9	25.8	28.7
1979	92.6	26.5	28.6
1980	93.6	28.8	30.8
1981	95.4	31.6	33.1
1982	94.8	33.2	35.0
1983	96.3	35.2	36.6

[1] Through 1970, excludes returns with no adjusted income; thereafter includes returns with no adjusted income.

Source: Statistical Abstract of the United States 1980, p. 269, and U.S. Department of Treasury, Internal Revenue Service, SOI Bulletin, Vol. 1, No. 3, Winter 1981-82 Statistics of Income, Individual Income Tax Returns, 1982, and Advance Data, 1983 Individual Income Tax Returns.

TABLE 7.—INDIVIDUAL INCOME TAX—ITEMIZED DEDUCTIONS BY TYPE, 1983

	Number of returns (millions)	Amount (billions)
Medical and dental	9.6	$17.9
Taxes paid	34.8	100.2
Contributions	32.1	37.5
Interest	31.7	132.5
Miscellaneous deductions	29.0	19.1
Net casualty or theft loss	(.2)	(.8)
Total	35.2	307.1

Source: U.S. Department of the Treasury, Internal Revenue Service, Advance Data, 1983 Individual Income Tax Returns.

TABLE 8.—INDIVIDUAL INCOME TAX—STATUTORY ADJUSTMENTS BY TYPE, 1983

	Number of returns (millions)	Amount (billions)
Moving expenses	1.5	$3.8
Employee business expense	7.4	17.7
Payments to an IRA	13.7	32.3
Payments to a Keogh plan	.6	2.9
Forfeited interest penalty	.7	.3
Alimony paid	.6	3.1
Deduction for working married couple	22.7	19.9
Disability income exclusion	.2	1.0
Other	.2	.5
Total	33.2	78.1

Source: U.S. Treasury, Internal Revenue Service, Statistics of Income, Individual Income Tax Returns, Advance Data 1983.

TABLE 9.—INDIVIDUAL INCOME TAX—TAX CREDITS BY TYPE, 1983 [1]

	Number of returns (millions)	Amount (billions)
Child care credit	6.4	$2.1
Earned income credit	2.6	.3
Credit for the elderly	.4	.1
Investment credit	4.6	3.9
Foreign tax credit	.4	.5
New jobs credit	.1	.1
Political contributions credit	5.0	.3
Residential energy credit	2.6	.6
Total	19.4	7.9

[1] Excludes credits claimed by less than 50,000 taxpayers.

Source: U.S. Treasury, Internal Revenue Service, Statistics of Income, Individual Income Tax Returns, Advance Data 1983.

TABLE 10.—RETURNS, ITEMIZERS, ADJUSTED GROSS INCOME, AND TAX LIABILITIES, BY ADJUSTED GROSS INCOME CLASS, 1983

Adjusted gross income	Number of returns (millions)	Percentage itemizing deductions	Adjusted gross income		Income tax liability [1]		Liability as a percent of adjusted gross income
			Billions	Percent	Billions	Percent	
No A.G.I	0.9	NA	$23.1	−1.2	$0.1	(*)	NA
Below $5,000	16.8	4.2	44.4	2.3	.4	0.1	.9
$5,000 under $10,000	16.7	10.2	125.3	6.4	4.6	1.7	3.7
$10,000 under $15,000	14.0	19.3	172.6	8.8	13.2	4.8	7.7
$15,000 under $20,000	10.8	31.5	187.8	9.6	18.4	6.7	9.8
$20,000 under $30,000	16.2	54.3	400.2	20.5	46.3	16.8	11.6
$30,000 under $50,000	15.6	82.1	588.4	30.2	82.7	30.0	14.1
$50,000 under $100,000	4.4	95.5	282.3	14.5	53.9	19.5	19.1
$100,000 under $200,000	.6	98.9	83.3	4.3	22.4	8.1	26.9
$200,000 and above	.2	99.3	89.7	4.6	32.9	11.9	36.7
Total	96.3	35.2	1,950.8	100.0	276.1	100.0	14.2

* Less than 0.05 percent.

[1] Tax liabilities do not reflect the refundable portion of the earned income credit.

Source: U.S. Department of the Treasury, Internal Revenue Service, Advance Data, 1983 Individual Income Tax Returns.

TABLE 11.—CORPORATION INCOME TAXES—RETURN CHARACTERISTICS OF ACTIVE CORPORATIONS, 1982

Item	Number of returns	Amount [1]
Returns With and Without Net Income		
Number of returns	2,925,933	—
Total receipts	2,809,012	7,024,098
Net income (less deficit)	2,904,381	154,334
Total income tax	1,187,962	86,766
Returns With and Without Net Income, Other Than Forms 1120S and 1120—DISC		
Number of returns	2,352,051	—
Total receipts	2,273,864	6,737,960
Net income (less deficit)	2,335,902	141,145
Statutory special deductions, total	415,919	19,514
Net operating loss deduction	308,218	11,373
Total special deductions	117,310	8,141
Income subject to tax, total	1,136,337	205,157
Net long-term capital gain taxed at alternative rates	25,001	12,021
Income taxed at regular rates	1,135,405	193,136
Income tax, total	1,187,466	86,736
Regular and alternative tax	1,136,337	85,075
Personal holding company tax	2,559	7
Tax from recomputing prior-year investment credit	185,705	1,181
Additional tax for tax preferences	7,631	478
Foreign tax credit	4,927	19,137
U.S. possessions tax credit	541	2,027
Investment credit	761,013	17,313
Work incentive (WIN) credit	7,512	29
Jobs credit	52,197	327
Research activities credit	9,849	839
Total income tax after credits [3]	923,402	46,703
Distribution to stockholders (except in own stock)	2,925,933	132,478
Returns with net income	1,608,357	116,758
Total assets	2,925,933	9,357,785
Depreciable assets	2,925,933	2,583,060
Depreciation deduction	2,925,933	213,179

[1] Amounts in millions of dollars.

[2] The income of firms that file form 1120S (subchapter S corporations) is taxed at the individual level. The income of firms that file form 1120-DISC (domestic international sales corporations) generally is not included in taxable income.

[3] Credits include foreign tax, U.S. possessions tax, investment, work incentive (WIN), jobs, nonconventional source fuel, alcohol fuel, and research activities credits.

Note.—Detail may not add to total because of rounding; 1982 data are for corporations with taxable years beginning July 1981 through June 1982.

Source: U.S. Department of the Treasury, Internal Revenue Service, Statistics of Income 1982. Corporation Income Tax Returns.

TABLE 12.—COMPARISON OF CORPORATE EFFECTIVE TAX RATES BY INDUSTRY, 1982 AND 1983

Industry	1982 tax rate (percent)			1983 tax rate (percent)		
	U.S. tax rate on U.S. income	Foreign tax rate on foreign income	World-wide tax rate on world-wide income	U.S. tax rate on U.S. income	Foreign tax rate on foreign income	World-wide tax rate on world-wide income
Aerospace	(0.6)	49.9	7.1	14.0	54.0	18.1
Beverages	20.5	48.6	28.8	18.7	52.3	27.3
Broadcasting	8.9	44.2	13.7	18.5	38.2	21.7
Chemicals	(17.7)	67.4	47.3	(1.0)	71.2	52.9
Computers and office equipment	26.4	51.9	37.1	26.3	54.3	38.1
Construction	15.9	32.8	22.6	.7	38.0	29.3
Electronics and appliances	14.3	38.3	21.4	7.4	40.4	16.4
Financial institutions	(3.8)	33.9	24.3	6.4	39.1	24.3
Food processors	31.6	48.6	36.5	25.9	39.0	29.3
Glass and concrete	(1)	34.7	17.9	17.5	47.5	24.4
Instruments	21.9	41.1	26.9	32.8	50.1	36.7
Insurance	(6.3)	(1)	(2.5)	9.9	(1)	12.9
Investment companies	21.3	27.6	23.3	9.3	20.2	13.8
Metal manufacturing	(1)	(1)	(1)	(1)	(1)	(1)
Metal products	30.2	67.9	42.8	15.1	42.0	29.3
Mining	(1)	(1)	(1)	(1)	48.8	(1)
Motor vehicles	(1)	(1)	(1)	3.5	41.2	10.4
Paper and wood products	36.1	(1)	42.5	(.5)	56.6	7.2
Petroleum	18.2	62.1	38.2	21.3	60.0	42.0
Pharmaceuticals	32.7	45.5	38.3	27.2	39.3	32.1
Retailing	20.4	41.5	21.6	20.0	43.6	21.3
Rubber	39.0	(1)	59.6	19.6	68.4	35.0
Soaps and cosmetics	33.3	53.6	38.0	35.6	52.0	38.9
Telecommunications	1.6	57.3	2.3	4.8	(1)	5.6
Tobacco	36.3	18.6	32.7	33.8	27.9	32.9
Transportation:						
Airlines	(1)	(1)	(1)	(1)	2.6	(1)
Railroads	4.1	....	4.1	3.3	....	3.3
Trucking	36.9	(1)	37.2	34.5	54.7	34.6
Utilities (electric and gas)	15.6	....	15.6	7.1	....	7.1
Wholesalers	36.1	14.5	34.1	34.8	(1)	35.9
Average, all Companies	16.1	55.0	29.6	16.7	54.3	29.2

---

[1] Rate not computed because before tax income is negative.

Source: Joint Committee on Taxation, Study of 1983 Effective Tax Rates of Selected Large U.S. Corporations, Nov. 14, 1983, pp. 11, 12; and Nov. 28, 1984, pp. 20, 21.

TABLE 13.—TAX EXPENDITURES BY FUNCTION, 1985

[In millions of dollars]

Description	Corporations	Individuals
National defense:		
Exclusion of benefits and allowances to Armed Forces personnel		1,955
International affairs:		
Exclusion of income earned abroad by United States citizens		1,405
Deferral of income of domestic international sales corporations (DISC)	460	
Exclusion of income of foreign sales corporations (FSC)	450	
Deferral of income from controlled foreign corporations	375	
General science, space, and technology:		
Expensing of research and development expenditures	3,430	160
Credit for increasing research activities	1,640	25
Suspension of the allocation of research and experimentation expenditures	125	
Energy:		
Expensing of exploration and development costs:		
Oil and gas	−240	825
Other fuels	40	
Excess of percentage over cost depletion:		
Oil and gas	300	1,055
Other fuels	310	20
Capital gains treatment of royalties on coal	10	90
Exclusion of interest on State and local industrial development bonds for certain energy facilities	−30	175
Residential energy credits:		
Supply incentives		330
Conservation incentives		245
Alternative, conservation and new technology credits:		
Supply incentives	175	95
Conservation incentives	*	*
Alternative fuel production credit	10	*
Alcohol fuel credit[1]	*	10
Energy credit for intercity buses	10	*
Special rules for mining reclamation reserves	35	5
Natural resources and environment:		
Expensing of exploration and development costs, nonfuel minerals	50	5
Excess of percentage over cost depletion, nonfuel minerals	315	15
Exclusion of interest on State and local IDBs for pollution control and sewage and waste disposal facilities	−280	1,530
Tax incentives for preservation of historic structures	110	215
Capital gains treatment of iron ore	*	20
Capital gains treatment of certain timber income	265	85
Investment credit and seven-year amortization for reforestation expenditures	20	*

TABLE 13.—TAX EXPENDITURES BY FUNCTION, 1985—Continued

[In millions of dollars]

Description	Corporations	Individuals
Agriculture:		
Expensing of certain capital outlays	70	400
Capital gains treatment of certain income	30	575
Commerce and housing credit:		
Dividend exclusion		475
Exclusion of interest on small issue industrial development bonds	−470	2,645
Exemption of credit union income	220	
Excess bad debt reserves of financial institutions	−115	
Exclusion of interest on life insurance savings		3,915
Deductibility of interest on consumer credit		15,530
Deductibility of mortgage interest on owner-occupied homes		24,785
Deductibility of property tax on owner-occupied homes		9,315
Exclusion of interest on State and local housing bonds for owner-occupied housing	425	1,260
Exclusion of interest on State and local debt for rental housing	205	550
Capital gains (other than agriculture, timber, iron ore and coal)	1,540	25,885
Deferral of capital gains on home sales		1,775
Exclusion of capital gains on home sales for persons age 55 and over		830
Carryover basis of capital gains at death		4,355
Investment credit, other than ESOP's, rehabilitation of structures, energy property, and reforestation expenditures	21,315	3,130
Accelerated depreciation on rental housing	165	635
Accelerated depreciation of buildings other than rental housing	5,420	2,590
Accelerated depreciation of machinery and equipment	18,105	2,040
Safe harbor leasing rules	2,340	
Amortization of start-up costs	25	210
Reinvestment of dividends in public utility stock		450
Reduced rates on the first $100,000 of corporate income	5,015	
Deduction for special percentage of taxable income for life insurance companies	790	
Transportation:		
Deferral of tax on shipping companies	130	
Exclusion of interest on State and local bonds for mass commuting vehicles	−5	55
Deduction for motor carrier operating rights	50	5
Community and regional development:		
Five-year amortization for housing rehabilitation	30	40
Investment credit for rehabilitation of structures (other than historic)	185	160

TABLE 13.—TAX EXPENDITURES BY FUNCTION, 1985—Continued

[In millions of dollars]

Description	Corporations	Individuals
Exclusion of interest on IDBs for airports, docks and sports and convention facilities	525	−60
Education, training, employment, and social services:		
Exclusion of scholarship and fellowship income		860
Exclusion of interest on State and local student loan bonds	65	225
Exclusion of interest on State and local debt for private nonprofit educational facilities	5	150
Parental personal exemption for students age 19 or over		1,110
Deductibility of charitable contributions (education)	410	935
Employer educational assistance		110
Exclusion of employer provided child care		15
Exclusion of employee meals and lodging (other than military)		795
Exclusion of contributions to prepaid legal services plan		40
Tax credit for ESOPs	1,890	
Credit for child and dependent care expenses		2,700
Targeted jobs credit	360	80
Deduction for two earner married couples		6,725
Deductibility of charitable contributions other than education and health	505	9,670
Deductions for certain adoption expenses		*
Exclusion of parsonage allowances		130
Health:		
Exclusion of employer contributions for medical insurance premiums and medical care		21,095
Deductibility of medical expenses		3,620
Exclusion of interest on State and local debt for private nonprofit health facilities	45	1,360
Deductibility of charitable contributions (health)	250	1,365
Tax credit for orphan drug research	*	
Social Security and Medicare:		
Exclusion of untaxed social security benefits:		
Disability insurance benefits		1,170
OASI benefits for retired workers		12,955
Benefits for dependents and survivors		3,755
Income security:		
Exclusion of untaxed railroad retirement system benefits		445
Exclusion of workmen's compensation benefits		2,225
Exclusion of public assistance benefits		545
Exclusion of special benefits for disabled coal miners		150
Exclusion of untaxed unemployment insurance benefits		1,110
Exclusion of military disability pensions		125
Net exclusion of pension contributions and earnings:		
Employer plans		48,525
Individual Retirement Accounts		12,695
Keoghs		1,960

TABLE 13.—TAX EXPENDITURES BY FUNCTION, 1985—Continued

[In millions of dollars]

Description	Corporations	Individuals
Exclusion of other employee benefits:		
Premiums on group term life insurance		2,055
Premiums on accident and disability insurance		125
Income of trusts to finance supplementary unemployment benefits		20
Additional exemption for the blind		35
Additional exemption for elderly		3,005
Tax credit for the elderly and disabled		110
Deductibility of casualty losses		230
Earned income credit [2]		285
Veterans benefits and services:		
Exclusion of veterans disability compensation		1,695
Exclusion of veterans pensions		190
Exclusion of GI bill benefits		105
Exclusion of interest on State and local debt for veterans housing	65	190
General government:		
Credits and deductions for political contributions		260
General purpose fiscal assistance:		
Exclusion of interest on public purpose State and local debt	1,645	6,415
Deductibility of nonbusiness State and local taxes other than on owner-occupied homes		21,455
Tax credit for corporations receiving income from doing business in United States possessions	1,660	
Interest:		
Deferral of interest on savings bonds		690

---

*$2.5 million or less. All estimates have been rounded to the nearest $5 million.

[1] In addition, the exemption from the excise tax for alcohol fuels resulted in a reduction in excise tax receipts of $375 million in 1985.

[2] The figures in the table indicate the effect of the earned income tax credit on receipts. The effect on outlays in 1985 was $1,110 million.

Source: Executive Office of the President, Office of Management and Budget, Special Analysis, Budget of the United States Government, fiscal year 1987, pp. G 42–46.

Section 2. Bibliographic Information

The following is a list, prepared with the assistance of the Congressional Research Service of the Library of Congress, of the principal sources for Federal tax statistics that are published by agencies of the Federal Government. The listings are arranged by publishing agency and include brief annotations where appropriate. The entries are principally printed material but include several computer tape filings.

I. INTERNAL REVENUE SERVICE PUBLICATIONS

A. STATISTICS OF INCOME

The most detailed and comprehensive source for statistics on Federal taxes is published by the Internal Revenue Service in its *Statistics of Income* series, the components of which are usually published on an annual basis. The data in the reports are based on information on tax returns filed with the IRS. The reports consist of a wide variety of statistical information on income tax liabilities as well as characteristics of the income that generates the liabilities. The series began in 1916 and until 1954 reported statistics from all forms of tax returns in a single one or two volume series entitled *Statistics of Income.* Beginning with 1954 the series was separated into several components, according to the type of income tax returns on which the statistics were based.

Regular reports

The following *Statistics of Income* reports are generally issued annually.

U.S. Internal Revenue Service. Statistics of Income. 1916–53. Washington, U.S. Gov't. Print. Off., various dates.

———. Statistics of Income: Corporation Income Tax Returns. 1954- . Washington, U.S. Gov't. Print. Off., various dates.

———. Statistics of Income: Estate Tax Returns. 1954- . Washington, U.S. Gov't. Print. Off., various dates.

———. Statistics of Income: Individual Income Tax Returns. 1954- . Washington, U.S. Gov't. Print. Off., various dates.

———. Statistics of Income: Partnership Returns. 1977- . Washington, U.S. Gov't. Print. Off., various dates.

———. Statistics of Income: Sole Proprietorship Returns. 1977- . Washington, U.S. Gov't. Print. Off., various dates.

The following series was published on a regular basis for tax years 1957 through 1976, but was replaced, beginning in 1977 by the *Partnership* and *Sole Proprietorship* series, listed above.

———. Statistics of Income: Business Income Tax Returns, 1957/58–76. Washington, U.S. Gov't. Print. Off., various dates.

Supplemental reports

In addition to its regular series; the Internal Revenue Service published supplementary *Statistics of Income* reports containing a variety of tax statistics. The most recent of these reports are listed here.

U.S. Internal Revenue Service, Statistics of Income: Domestic International Sales Corporation Returns, 1972, 1973 and 1974. Washington, U.S. Gov't Print. Off., 1980.

———. Statistics of Income: Foreign Income and Taxes Reported on Individual Income Tax Returns, 1972-78. Washington, U.S. Gov't. Print. Off., 1981.

———. Statistics of Income: Foreign Tax Credit Claimed on Corporation Returns, 1974. Washington, U.S. Gov't. Print. Off., 1980.

———. Statistics of Income: Sales of Capital Assets Reported on Individual Income Tax Returns, 1973. Washington, U.S. Gov't. Print. Off., 1980.

———. Statistics of Income: Individual Retirement Arrangements, 1976. Washington, U.S. Gov't. Print. Off., 1980.

———. Statistics of Income: Private Foundations, 1974-78. Washington, U.S. Gov't. Print. Off., 1981.

———. Statistics of Income: U.S. Corporations and their Controlled Foreign Corporations, 1974-78. Washington, U.S. Gov't. Print. Off., 1981.

———. Statistics of Income: Foreign Income and Taxes Reported on U.S. Income Tax Returns, 1976-79. Washington, U.S. Gov't. Print. Off., 1982.

In addition to the reports cited above, the Internal Revenue Service publishes preliminary income tax data in its *Statistics of Income Bulletin.* This publication began in 1981 and is published on a quarterly basis.

B. OTHER INTERNAL REVENUE SERVICE PUBLICATIONS

U.S. Internal Revenue Service. Annual Report of the Commissioner of Internal Revenue and the Chief Counsel for the Internal Revenue Service. 1863/64—Washington, U.S. Gov't. Print. Off., various dates.

This annual document is in the nature of an administrative report. Accordingly, while it does contain relatively detailed statistics on taxes that overlap to some degree with the *Statistics of Income* series, its emphasis is different. Statistics reported include actual tax collections by type of tax rather than tax liabilities such as reported in *Statistics of Income.* Other administrative data such as refunds issued are also reported. Also, statistics are reported on a fiscal year basis rather than by tax year, as with the *Statistics of Income* series.

———. Income tax compliance research; estimates for 1973-1981. Washington, U.S. Internal Revenue Service, 1983.

This report presents estimates of income tax compliance in the United States for the period 1973 to 1981. These estimates indicate that more than 80 percent of tax due was voluntarily paid during those years; nevertheless, the tax gap was large and growing. Rates of correct voluntary reporting of taxable income were declining.

In addition to the above series, much of the raw data that appears in organized form in the *Statistics of Income* series is available in the form of computer tape files available on a reimbursable basis from the Statistics of Income Division, Internal Revenue Service.

II. DEPARTMENT OF THE TREASURY PUBLICATIONS

The Department of the Treasury issues several regular reports that contain statistics on Federal taxes. Several of these reports contained statistics on tax receipts in the context of Federal receipts as a whole. The Treasury Department also issues reports on several specific provisions of the Internal Revenue Code, providing a wide variety of statistics.

U.S. Department of the Treasury. Annual Report of the Secretary of the Treasury on the State of the Finances, 1815- . Washington, U.S. Gov't Print. Off., various dates.

The Annual Report contains a brief section on tax receipts by type of tax, shown in the context of budget receipts as a whole. The statistics are reported on a fiscal year basis. Annual reports have not been published since 1980.

———. High Income Tax Returns. 1974/75–1975/76. Washington, U.S. Gov't. Print. Off., 1977, 1978.

The Treasury Department is required by P.L. 94–455 to issue annual reports on high income tax returns. The reports emphasize returns with little or no tax liability. Beginning with tax year 1979, the report was integrated into the regular Statistics of Income volume for individuals.

———. Operation and Effect of the Domestic International Sales Corporation Legislation, 1972- . Washington, U.S. Gov't Print. Off., 1974–81.

This report is required annually under P.L. 92–178.

———. Operation and Effect of the International Boycott Provisions of the Internal Revenue Code, 1976- . Washington, U.S. Gov't. Print. Off., 1979, 1980, 1982.

This report is required to be made annually by P.L. 94–455.

———. Operation and Effect of the Possessions Corporation System of Taxation, 1978- . Washington, U.S. Gov't Print. Off., 1978–85.

This report is required to be made annually by P.L. 94–455.

———. Treasury Bulletin. Washington, U.S. Gov't Print. Off., 1939- .

This quarterly publication reports tax receipts by type of tax on a monthly basis and in the context of Federal receipts as a whole.

———. Treasury Combined Statement of Receipts, Expenditures and Balances of the United States Government, 1940- . Washington, Dept. of the Treasury, various dates.

The annual Combined Statement also report tax receipts by type of tax in the context of budget receipts as a whole, but on a fiscal year basis. Its statistics are generally more detailed than those published in the Annual Report of the Secretary.

———. Report to the Congress on the Capital Gains Tax Reductions of 1978. Washington, U.S. Gov't Print. Off., 1985

III. OTHER EXECUTIVE BRANCH PUBLICATIONS

U.S. Department of Commerce. Bureau of the Census. Historical Statistics of the United States, Colonial Times to the Present. Bicentennial Edition, part 2. Washington, U.S. Gov't Print. Off., 1975.

This volume contains a section on Government finances that presents a wide variety of historical tax statistics gathered from the IRS and Treasury Department sources listed above, although in a generally less detailed form.

———. Statistical Abstract of the United States. Washington, U.S. Gov't. Print. Off., various dates.

The Statistical Abstract also contains statistics on Federal taxes gathered from sources previously listed. Because it is published annually, statistics it reports are more current than those in the Bureau's Historical Statistics volume. However, less historical detail is provided.

———. Bureau of Economic Analysis. National Income and Product Accounts of the United States, 1929–76: Statistical Tables. Washington, Dept. of Commerce, Sept. 1981.

This volume contains tax statistics on an historical basis in the context of the National Income and Product Accounts.

———. Survey of Current Business. Washington, 1921- .

Published on a monthly basis, this serial also reports tax statistics in the context of the National Income and Product Accounts.

U.S. Federal Trade Commission. Quarterly Financial Report for Manufacturing, Mining and Trade Corporations. Washington, 1947- .

This quarterly report contains statistical information based on samples of financial reports filed with the FTC by corporations. Corporate tax information is reported in aggregate form in the context of balance sheets.

U.S. Office of Management and Budget. Budget of the United States Government. 1921- . Washington, U.S. Gov't. Print. Off., various dates.

The principal budget document, issued on a fiscal year basis, generally contains a section that projects future budget receipts by source. The corresponding section of the Fiscal Year 1987 document is Part 4. In addition, the budget generally contains a section comprised of summary tables that include historical statistics on tax receipts. These tables are in Part 6e of the Fiscal Year 1987 document.

———. Budget of the United States Government, 1987: Historical Tables. Washington, U.S. Gov't. Print. Off., 1986.

———. Budget of the United States Government, 1987: Special Analysis B—Federal Transactions in the National Income Accounts. Washington, U.S. Gov't. Print. Off., 1986.

Associated with the principal budget document, but published separately are numerous analyses of topics related to the budget. Special Analysis B contains statistics on tax receipts in the context of the National Income and Product Accounts.

———. Budget of the United States Government, 1987: Special Analysis G—Tax Expenditures. Washington, U.S. Gov't. Print. Off., 1986. Special Analysis G contains statistics related to tax expenditures.

U.S. President. Economic Report of the President, Transmitted to the Congress, 1947- . Washington, U.S. Gov't. Print. Off., various dates.

This annual document contains summary statistics on Federal tax receipts in the context of total Federal receipts on both a calendar and fiscal basis and with some historical detail.

An additional Federal agency from which tax statistics are available is the Securities and Exchange Commission (SEC). Many corporations are required to file financial statements with the SEC that include tax information. These statements, filed on form 10K, are not compiled and published by the SEC but are accessible to the general public at the SEC Public Reference Office, 4050 5th St. N.W., Washington, D.C.

IV. LEGISLATIVE BRANCH SOURCES

The Joint Committee on Taxation frequently publishes revenue estimates prepared by its staff. These are usually associated with revenue measures that are pending before or have recently been passed by Congress or that are otherwise of interest. The estimates generally appear in reports of the House Ways and Means Committee, the Senate Finance Committee, or in Joint Committee prints. Some of the Joint Committee's recent revenue estimates are contained in the publications listed below.

U.S. Congress. Joint Committee on Taxation. Estimates of Federal Tax Expenditures for Fiscal Years 1986–1990. Joint Committee Print, JSC-8-85. Washington, U.S. Gov't. Print. Off., 1985.

———. General Explanation of the Economic Recovery Tax Act of 1981. Joint Committee Print, 97th Cong., 1st sess., Dec. 29, 1981. Washington, U.S. Gov't. Print. Off., 1982.

———. General Explanation of the Revenue Provisions of the Tax Equity and Fiscal Responsibility Act of 1982. Joint Committee Print, 97th Cong., 2nd sess., Dec. 31, 1982. Washington, U.S. Gov't. Print. Off., 1982.

———. General Explanation of the Revenue Provisions of the Deficit Reduction Act of 1984. Joint Committee Print, 98th Cong., 2nd sess., 1984. Washington, U.S. Gov't. Print. Off., 1985.

———. Schedule of Present Federal Excise Taxes (As of January 1, 1985). Joint Committee Print, January 31, 1985; Washington, U.S. Gov't. Print. Off., 1985.

———. Study of 1983 Effective Tax Rates of Selected Large U.S. Corporations. Joint Committee Print, Nov. 28, 1984; Washington, U.S. Gov't. Print. Off., 1984.

———. Summary of Present Federal Excise Taxes. Joint Committee Print, 98th Cong., 1st sess., 1983. Washington, U.S. Gov't. Print. Off., 1983.

U.S. Congress. Senate. Committee on the Budget. Tax Expenditures: Relationships to Spending Programs and Background Material on Individual Provisions. Committee Print, 97th Cong., 2nd sess., March 17, 1982. Washington, U.S. Gov't. Print. Off., 1982.

In connection with its function of providing Congress with information and analysis of the Federal budget, the Congressional Budget Office (CBO) frequently publishes statistics on tax receipts along with its budget reports. Much of CBO's statistics is projections of tax receipts for future years. A listing of recent CBO publications that contain tax data is provided below.

U.S. Congressional Budget Office. An Analysis of the President's Budgetary Proposals for Fiscal Year 1986. Washington, U.S. Gov't. Print. Off., February 1985.

———. The Economic and Budget Outlook: Fiscal Years 1986-1990. Washington, U.S. Gov't. Print. Off., February 1985.

———. Forecasting Individual Income Tax Revenues: A Technical Analysis. Washington, U.S. Gov't. Print. Off., August 1983.

———. Reducing the Deficit—Spending and Revenue Options: A Report to the Senate and House Committees on the Budget—Part II. Washington, U.S. Gov't. Print. Off., February 1985.

———. Revising the Individual Income Tax. Washington, U.S. Gov't. Print. Off., July 1983.

———. Tax Expenditures: Current Issues and Five-Year Budget Projections for Fiscal Years 1984-1988. Washington, U.S. Gov't. Print. Off., October 1983.

———. Revising the Corporate Income Tax. Washington, U.S. Gov't Print. Off., 1985.

BLANK PAGE

PART 4

OTHER MATTERS WITHIN THE JURISDICTION OF THE COMMITTEE ON WAYS AND MEANS

Section 1. Public Debt, Debt Management, and Interest Payments
Section 2. The Federal Financing Bank
Section 3. Pension Benefit Guaranty Corporation
Section 4. Capital Construction Fund

BLANK PAGE

Section 1. Public Debt, Debt Management, and Interest Payments

This section describes the relationship between changes in the public debt and the budget as well as the statutory limitations on the conduct of debt management. A variety of data descriptive of the public debt are also provided.

An increase in the gross public debt during a fiscal year is approximately equal to the Federal budget deficit plus trust fund surpluses under present budget conventions, as amended by the Balanced Budget and Emergency Deficit Control Act of 1985 (Public Law 99-177, the Gramm-Rudman-Hollings Act). See the 1985 edition of this volume for a discussion of the relationship between the budget and the public debt under prior budget concepts. Under the 1985 Act, the Federal Financing Bank and several other Federal entities which had been "off budget" under prior budget concepts were moved "on budget." The Act also changed the budgetary status of social security by excluding the operations of the old-age and survivors insurance trust fund (OASI) and the disability trust fund (DI) from the budget. Notwithstanding this provision, the Act provided that the receipts and disbursements of OASI and DI shall be included in calculating the deficit.

The Federal budget deficit is equal to the Federal funds deficit less the surplus in trust funds, both on-budget trust funds and the two off-budget trust funds. Federal funds receipts are derived mainly from taxes and are used for the general purposes of the Government. The trust funds collect certain taxes and other receipts for specified purposes, such as payment of social security benefits, in accordance with the terms of a trust agreement or statute. Thus, even if the budget were in balance, the public debt would still increase if the Federal funds were in a deficit position and the trust funds accumulated an offsetting surplus.

Because trust fund surpluses are invested in public debt securities, the increase in the gross public debt during a fiscal year approximates the deficit plus trust fund surpluses. An increase in the gross public debt is not precisely equal to the Federal deficit plus the trust fund surpluses because, to a limited extent, deficits can be financed by means other than borrowing. For example, if the Federal Government ends the fiscal year with a smaller cash balance than at the beginning of the year, that decline in the cash balance would substitute for borrowing from the public.

It is, of course, possible for the public debt to decline. For example, this would occur if a Federal funds deficit were less than trust fund surpluses and thus there was a budget surplus. Investment of trust fund surpluses in public debt securities would be accomplished by the Treasury not issuing new debt to replace maturing debt held by the public and instead issuing new special issues to the trust funds. In economic terms, the debt held by the public—

that is the amount that excludes the debt held by trust funds—has much more significance than the total debt outstanding.

Table 1 provides actual information on the budget and public debt. This information is taken from the budget documents for fiscal year 1987. As a part of its budget proposals, the Administration recommends placing all the off-budget Federal entities on-budget. This would have the affect of increasing budget outlays and deficits but not affecting the debt subject to limit. Table 1 shows both outlay and deficit figures broken down by their on-budget and off-budget components.

Table 2 shows the statutory debt limit and debt subject to limit at the end of each fiscal year since 1975. The gross public debt is larger than the amount subject to limit primarily because certain debts issued by Federal agencies are not, by statute, subject to the debt ceiling. The amount of such agency debt outstanding has been reduced in recent years. For a more complete discussion of the budget and debt concepts see special analyses C and E in Special Analyses, Budget of the United States Government, Fiscal Year 1987.

Statutory limitations have traditionally been placed on Federal debt. Until World War I, the Congress ordinarily authorized a specific amount for each debt issue. Beginning with the Second Liberty Bond Act of 1917, however, the nature of the limitation was modified in several steps until it developed into a ceiling on the total amount of most Federal debt outstanding. The latter type of limitation has been in effect since 1941.

In 1971, the statutory debt limit was set at a permanent limit of $400 billion. Temporary increments that usually expired in a year or less were periodically enacted. Since the debt subject to limit was more than $400 billion, new legislation was required no later than the expiration date of each temporary increment. Three times in recent years the temporary increment expired without having been extended, so for a few days on each occasion the Federal debt exceeded the statutory limit. The validity of debt issued prior to the expiration of the temporary ceiling was not affected, but the Treasury Department had to suspend all sales of savings bonds and other debt securities until a new temporary ceiling was enacted.

The distinction between the permanent and temporary debt limit was eliminated by Public Law 98-34 (enacted May 26, 1983). The limit was increased to $2,078.7 billion on December 12, 1985 (Public Law 99-177). The public debt subject to limit on February 7, 1986 was $1,953.8 billion.

Rules enacted in 1979 integrate the House's procedure for setting of the public debt limit with the congressional budget process. Under this procedure (House Rule XLIX), when the conference report on a budget resolution is adopted and specifies a public debt limit for a fiscal year which differs from the statutory limit in effect, the Enrolling Clerk of the House prepares a joint resolution which changes the current statutory public debt limit consistent with the level of public debt specified in the budget resolution. The vote by which the House agreed to the conference report on the budget resolution is deemed to have been a vote in favor of the joint resolution on the public debt. If there is no conference report, the House vote to adopt the budget resolution applies. The joint resolution is then sent to the Senate for legislative action. After final passage by both Houses, the joint resolution is transmitted to the President for his signature.

This procedure does not preclude changing the public debt limit at any time by passing a public debt limit bill that originates in the Committee on Ways and Means.

Table 3 provides information on the ownership of the public debt. Interest received on the public debt held by Federal Reserve Banks is in excess of the costs of operating those banks. Excess earnings of the Federal Reserve Banks are paid over to the Treasury and classified as miscellaneous budget receipts. During fiscal year 1985, these payments totaled $17.1 billion.

Table 4 shows the composition of interest-bearing public debt by kind of obligation. Current law constrains the composition of the debt by a 4½ percent interest rate ceiling on bonds with a maturity at date of issue of 10 years or more. Under current law, $200 billion of long-term bonds are exempt from the 4½ percent interest rate ceiling. This limitation was most recently revised by Public Law 98-302 which increased the limitation from $150 billion to $200 billion.

Prior to the enactment of Public Law 97-248, the Tax Equity and Fiscal Responsibility Act of 1982, the rate of interest on savings bonds was constrained. The rate could not have been increased by more than 1 percentage point in any 6-month period. The 1982 Act repealed that limitation thus allowing the Treasury Department to issue savings bonds with a variable rate of interest. The Treasury Department's new savings bond program went into effect on November 1, 1982.

The maturity distribution of the debt is shown in table 5. This distribution can be summarized in terms of the average maturity of the debt. Debt management primarily involves decisions regarding the maturity composition of the debt. The longer the average maturity of the debt, the smaller the amount of maturing securities that must be refinanced with new issues at any one time. Smaller refunding operations are less likely to disturb capital markets. On the other hand, lengthening the average maturity of the debt requires issuing more longer term securities that are competitive with securities issued to finance private capital formation. Longer term securities typically carry higher interest rates than short-term securities so that lengthening the average maturity of the debt may result in higher interest payments.

Table 6 shows the growth of net interest payments by the Federal Government. In 1985, $179.1 billion of interest on the public debt was paid out. This was offset by interest received by trust funds, primarily the social security and civil service retirement funds, and other interest received. Included in this letter amount is interest earned by the Federal Financing Bank and, as a negative item, interest paid on refunds of tax collections. Net interest payments in 1985 were $129.4 billion, and 14 percent of total budget outlays.

TABLE 1.—RECEIPTS, OUTLAYS, AND DEBT, 1977–85

[In billions of dollars]

Description	1977	1979	1981	1983	1985
Receipts:					
On-budget:					
Federal	241.3	316.4	410.4	382.4	459.5
Trust funds	70.3	86.0	106.0	147.3	197.7
Interfund transactions	−32.9	−37.0	−47.4	−76.5	−109.4
Total on-budget	278.7	365.3	469.1	453.2	547.9
Off-budget (trust funds)	76.8	98.0	130.2	147.3	186.2
Total receipts	355.6	463.3	599.3	600.6	734.1
Outlays:					
On-budget:					
Federal funds	304.5	374.9	496.2	613.3	726.1
Trust funds	56.9	65.7	94.2	124.4	152.7
Interfund transactions	−32.9	−37.0	−47.4	−76.5	−109.4
Total on-budget	328.5	403.5	543.0	661.2	769.5
Off-budget (trust funds)	80.7	100.0	135.2	147.1	176.8
Total outlays	409.2	503.5	678.2	808.3	946.3
Surplus or deficit (−):					
Federal funds	−63.1	−58.5	−85.8	−230.8	−266.6
Trust funds	9.5	18.3	6.8	23.1	54.4
Total surplus or deficit (−)	−53.6	−40.2	−78.9	−207.8	−212.3
On-budget	(−49.7)	(−38.2)	(−73.9)	(−208.0)	(−221.6)
Off-budget	(−3.9)	(−2.0)	(−5.0)	(0.2)	(9.4)
Debt outstanding, end of year:					
Gross Federal debt	709.1	833.8	1,003.0	1,381.9	1,827.5
Held by the public	551.8	644.6	794.4	1,141.8	1,509.9

Note.—For all years, transactions of the social security trust funds are presented off-budget and transactions of formerly off-budget accounts are presented on-budget.

Source: The United States Budget in Brief, Fiscal Year 1987, Executive Office of the President, Office of Management and Budget, p. 77.

TABLE 2.—STATUTORY DEBT LIMIT AND DEBT SUBJECT TO LIMIT, 1975–85

[In billions of dollars]

End of fiscal year	Statutory debt limit	Debt subject to limit
1975	577.0	534.2
1976	636.0	620.6
1977	700.0	700.0
1978	798.0	772.7

TABLE 2.—STATUTORY DEBT LIMIT AND DEBT SUBJECT TO LIMIT, 1975–85—Continued

[In billions of dollars]

End of fiscal year	Statutory debt limit	Debt subject to limit
1979	830.0	827.6
1980	925.0	908.7
1981	999.8	999.8
1982	1,143.1	1,142.9
1983	1,389.0	1,378.0
1984	1,573.0	1,573.0
1985	1,823.8	1,823.8

Source: Treasury Bulletin, 4th Quarter, Fiscal 1985, p. 17, and earlier issues.

TABLE 3.—ESTIMATED OWNERSHIP OF PUBLIC DEBT SECURITIES, 1976–85

[Par. values;[1] billions of dollars]

End of year	Total public debt securities	Held by Government accounts	Held by Federal Reserve Banks	Held by private investors											
						Nonbank investors									
							Individuals[3]								
				Total	Commercial banks[2]	Total	Total	Savings bonds[4]	Other securities	Insurance companies	Money market funds	Corporations[5]	State and local governments[6]	Foreign and international[7]	Other investors[8]
1976	653.5	147.1	97.0	409.5	103.5	306.0	101.6	72.0	29.6	16.2	1.1	23.5	39.8	78.1	45.7
1977	718.9	154.8	102.8	461.3	98.9	362.4	107.8	76.7	31.1	19.9	.9	18.2	51.9	109.6	54.1
1978	789.2	170.0	110.6	508.6	95.0	413.6	114.0	80.7	33.3	20.0	1.5	17.3	64.5	133.1	63.2
1979	845.1	187.1	117.5	540.5	88.1	452.4	118.0	79.9	38.1	21.4	5.6	17.0	74.1	119.0	97.3
1980	930.2	192.5	121.3	616.4	112.1	504.3	117.1	72.5	44.6	24.0	3.5	19.3	87.9	129.7	122.8
1981	1,028.7	203.3	131.0	694.5	111.4	583.1	110.8	68.1	42,7	29.0	21.5	17.9	104.3	136.6	163.0
1982	1,197.1	209.4	139.3	848.4	131.4	717.0	116.5	68.3	48.2	39.1	42.6	24.5	127.8	149.5	217.0
1983	1,410.7	236.3	151.9	1,022.6	188.8	883.7	133.4	71.5	61.9	56.7	22.8	39.7	155.1	166.3	259.8
1984	1,663.0	289.6	160.9	1,212.5	183.4	1,029.1	143.8	74.5	69.3	82.3	25.9	50.1	[10] 165.0	171.6	[10] 319.3
1985[9]	1,823.1	315.2	169.7	1,338.2	196.9	1,141.3	151.3	78.2	73.1	NA	22.7	56.5	NA	210.2	NA

NA—Not available.

[1] U.S. savings bonds, series A–F and J, are included at current redemption value.

[2] Includes domestically chartered banks, U.S. branches and agencies of foreign banks; New York investment companies majority owned by foreign banks, and Edge Act corporations owned by domestically chartered and foreign banks.

[3] Includes partnerships and personal trust accounts.

[4] Includes U.S. savings notes. Sales began May 1, 1967, and were discontinued June 30, 1970.

[5] Exclusive of banks and insurance companies.

[6] Includes State and local pension funds.

[7] Consists of the investment of foreign balances and international accounts in the United States.

[8] Includes savings and loan associations, credit unions, nonprofit institutions, mutual savings banks, corporate pension trust funds, dealers and brokers, certain Government deposit accounts, and Government-sponsored agencies.

[9] September estimate.

[10] June 1984 data.

Source: Economic Report of the President, 1986, p. 350.

TABLE 4.—INTEREST-BEARING PUBLIC DEBT SECURITIES BY KIND OF OBLIGATION, 1975–85

[In billions of dollars]

End of fiscal year	Total interest-bearing public debt securities	Marketable				Nonmarketable				
		Total	Treasury bills	Treasury notes	Treasury bonds [1]	Total	U.S. savings bonds	Foreign government and public series [2]	Government account series	Other [3]
1975	532.1	315.6	128.6	150.3	36.8	216.5	65.5	23.2	124.2	3.6
1976	619.3	392.6	161.2	191.8	39.6	226.7	69.7	22.0	130.6	4.9
1977	697.6	443.5	156.1	241.7	45.7	254.1	75.4	21.8	140.1	16.8
1978	767.0	485.2	161.0	267.9	56.4	281.8	79.8	21.7	153.3	27.1
1979	819.0	506.7	161.4	274.2	71.1	312.3	80.4	28.1	176.4	27.4
1980	906.4	594.5	199.8	310.9	83.8	311.9	72.7	25.2	189.8	24.2
1981	996.5	683.2	223.4	363.6	96.2	313.3	68.0	20.5	201.1	23.7
1982	1,140.9	824.4	277.9	442.9	103.6	316.5	67.3	14.7	210.5	24.1
1983	1,375.8	1,024.0	340.7	557.5	125.7	351.8	70.0	11.4	234.7	35.5
1984	1,559.6	1,176.6	356.8	661.7	158.1	383.0	72.8	8.8	259.5	41.8
1985	1,821.0	1,360.2	384.2	776.4	199.5	460.8	77.0	6.6	313.9	63.2

[1] Includes Treasury bonds and minor amounts of Panama Canal and postal savings bonds.

[2] Nonmarketable certificates of indebtedness, notes, bonds, and bills in the Treasury foreign series of dollar-denominated and foreign-currency denominated issues.

[3] Includes depository bonds, retirement plan bonds, Rural Electrification Administration bonds, State and local bonds, and special issues held only by U.S. Government agencies and trust funds and the Federal home loan banks.

Note.—Through fiscal year 1976, the fiscal year was on a July 1–June 30 basis; beginning October 1976 (fiscal year 1977) the fiscal year is on an October 1–September 30 basis.

Source: Treasury Bulletin, 4th Quarter, Fiscal 1985, p. 14, and prior issues.

TABLE 5.—MATURITY DISTRIBUTION AND AVERAGE LENGTH OF MARKETABLE INTEREST-BEARING PUBLIC DEBT SECURITIES HELD BY PRIVATE INVESTORS, 1975–85

[Dollars in billions]

End of fiscal year	Amount outstanding, privately held	Maturity class					Average length	
		Within 1 year	1 to 5 years	5 to 10 years	10 to 20 years	20 years and over	Years	Months
1975	210.4	115.7	65.9	15.4	8.9	4.6	2	8
1976	279.8	151.7	89.2	24.2	8.1	6.7	2	7
1977	326.7	161.3	113.3	33.1	8.4	10.5	2	11
1978	356.1	163.9	133.0	33.5	11.4	14.8	3	3
1979	380.5	181.9	127.6	32.3	18.5	20.3	3	7
1980	463.7	220.1	156.2	38.8	25.9	22.7	3	9
1981	549.9	256.2	182.2	48.7	32.6	30.1	4	0
1982	682.0	314.4	221.8	75.7	33.0	37.1	3	11
1983	862.6	379.6	295.0	99.2	40.8	48.1	4	1
1984	1,017.5	437.9	332.8	130.4	49.7	66.7	4	6
1985	1,185.7	472.8	402.8	159.4	62.9	88.0	4	11

Note.—All issues classified to final maturity. Through fiscal year 1976, the fiscal year was on a July 1–June 30 basis; beginning October 1976 (fiscal year 1977), the fiscal year is on an October 1–September 30 basis.

Source: Treasury Bulletin, 4th Quarter, Fiscal 1985, p. 17, and prior issues.

TABLE 6.—INTEREST PAYMENTS, 1975–1985

[In billions of dollars]

	1977	1979	1981	1983	1985
Interest on the public debt	41.9	59.8	95.5	128.6	179.1
Interest received by on-budget trust funds	−5.5	−7.7	−11.5	−15.3	−22.1
Interest received by off-budget trust funds	−2.7	−2.2	−2.3	−1.8	−4.1
Other interest	3.9	7.3	13.0	−21.7	−23.4
Total net interest	29.9	42.6	68.7	89.8	129.4
On-budget	(32.5)	(44.8)	(71.0)	(91.6)	(133.6)
Off-budget	(−2.7)	(−2.2)	(−2.3)	(−1.8)	(−4.1)

Source: Executive Office of the President, Office of Management and Budget, The United States Budget in Brief, Fiscal Year 1987, p. 98.

Section 2. The Federal Financing Bank

LEGISLATIVE HISTORY

The Federal Financing Bank (FFB) was established by Public Law 93–224 after favorable consideration by the House Committee on Ways and Means and the Senate Committee on Banking, Housing and Urban Affairs. The House and Senate agreed to the conference report on December 19, 1973. (House Reports 93–299, Committee on Ways and Means and 93–700, Conference Committee, and Senate Report 93–166, Committee on Banking).

OPERATIONS OF THE FFB

The FFB was created as an off-budget Federal agency in the Treasury Department as a means of coordinating Federal borrowing efforts, reducing the costs of Federal borrowing from the public, and minimizing the disruption of Federal borrowing in the private markets. At the time the FFB was established, Federal credit programs had expanded to the point that some Federal financing was going to the market every few days. Accordingly, the FFB was authorized to purchase the obligations of any Federal agency and obligations guaranteed by Federal agencies. The FFB began operations in May 1974. Although the FFB was authorized to borrow in its own name in the private markets, it has done so only once. Since then, the FFB has borrowed directly from the Treasury Department, and it in turn has borrowed that amount in addition to the borrowing needed to finance the budget deficit. Hence, the Federal debt is increased as the Treasury Department borrows to accommodate the FFB.

The FFB's outstanding holdings have grown dramatically, from $35 billion in fiscal year 1977 to $107.8 billion in fiscal year 1981, $124.3 billion in fiscal year 1982, $135.9 billion in fiscal year 1983, and $144.7 billion in fiscal year 1984. Between 1984 and 1985, FFB's holdings fell to $122 billion. Much of the growth since 1977 has occurred in the purchase of federally guaranteed loans.

Because of the budgetary treatment of federally guaranteed loans before fiscal year 1987, FFB purchases of such guaranteed loans had the effect of converting agency guaranteed loans into a direct off-budget loan of the Federal Government. Also, when the FFB purchased the loan assets of other Federal agencies, the effect was to transfer the direct agency loan into an off-budget loan of the FFB. But Gramm-Rudman-Hollings provides that loan assets and loan guarantees purchased by the FFB will no longer be off-budget. Instead, FFB purchases of this nature will be recorded as outlays of the agency that originated the loan or loan guarantee.

There is no statutory limit on the magnitude of the FFB's operations. Accordingly, the only controls are indirect and result from whatever limits may be imposed in the authorizations or appropriations processes on the credit activities of other Federal agencies. Since 1980, the Administration and Congress have been working to develop a more comprehensive system for controlling Federal credit activities in the budget process. The Administration proposes appropriations limits on new direct loan obligations and loan guarantee commitments as part of the budget process. These requests are then acted upon by Congress through regular appropriations bills. Presently, however, limits have been proposed for more than half the Federal credit budget.

OUTLAYS AND ACQUISITIONS

Table 1 illustrates that FFB annual outlays have grown from $14.4 billion in fiscal year 1980 to $21 billion in fiscal year 1981, declining to $7.4 billion in fiscal year 1985. Over the same period, the FFB's outstanding portfolio has grown from $83 billion to $122 billion. Annual acquisitions have ranged over the period from $18 billion to over $30 billion.

Table 2 contains a distribution of FFB annual outlays by Federal agency or program. Actual outlays are shown for fiscal years 1983, 1984, and 1985. As these data illustrate, FFB's outlays are devoted primarily to the credit programs of the Farmers Home Administration and the Rural Electrification Administration and to foreign military sales. Beginning in fiscal year 1987, FFB outlays will be recorded as outlays of the agency originating the loan asset or loan guarantee purchased by the FFB.

TABLE 1.—FEDERAL FINANCING BANK ACTIVITIES

[In millions of dollars]

	Fiscal year—					
	1980	1981	1982	1983	1984	1985
New acquisitions	22,188	30,269	26,232	18,295	19,448	18,335
Net outlays	14,365	20,956	14,155	10,396	7,336	7,433
Outstandings [1]	83,072	107,799	124,301	135,923	144,709	121,560

[1] Includes balance of direct loans and purchases of Federal agency debt.

Source: Special Analysis F, Table F–4, Budget of the United States, Fiscal Years 1981–82; Table F–5, Budget of the United States, Fiscal Year 1983; Table F–8, Budget of the United States, Fiscal Year 1984; Table F–17, Budget of the United States, Fiscal Year 1985; Table F–22, Budget of the United States, Fiscal Year 1986; Table F–22, Budget of the United States, Fiscal Year 1987.

TABLE 2.—DISTRIBUTION OF FEDERAL FINANCING BANK OUTLAYS

[In millions of dollars]

Description	1983	1984	1985
Outlays from direct loans, by agency or programs:			
Farmers Home Administration: Certificates of beneficial ownership	2,955	2,820	4,658
Rural Electrification and Telephone revolving fund:			
Certificates of beneficial ownership	344	69	188
New originations	2,657	1,648	1,088
Foreign military sales credit	2,858	2,818	978
Student Loan Marketing Association	0	0	0
Housing and Urban Development:			
Community Development	60	31	81
Low rent public housing	443	112	−32
Transportation: Railroad programs	15	−904	−6
National Aeronautics and Space Administration	189	8	−67
Small business investment companies	182	254	405
Tennessee Valley Authority: Seven States Energy Corporation	161	137	96
Energy projects	554	366	−1,296
Other	−22	−22	1,340
Subtotal, outlays from direct loans	10,396	7,336	7,433
Interest, transfer of surplus, and administrative expenses [1]	9	−60	([2])
Total, FFB outlays	10,404	7,277	7,433

[1] Net effect on outlays from nonlending activities.

[2] Not available.

Note: Details may not add due to rounding.

Source: U.S. Budget, Fiscal Year 1987, Special Analysis F, U.S. Budget, Fiscal Year 1986, part 6, p. 6–14, U.S. Budget, Fiscal Year 1985, part 6, p. 6–13, and U.S. Budget, Fiscal Year 1984, Special Analysis F.

Section 3. Pension Benefit Guaranty Corporation

LEGISLATIVE HISTORY

The Pension Benefit Guaranty Corporation (PBGC) was established under Title IV of the Employee Retirement Income Security Act of 1974 (ERISA) (88 Stat. 829, Public Law 93-406) to protect the retirement income of plan participants and their beneficiaries covered under private sector, defined benefit pension plans. Public Law 96-364 requires that the Corporation's receipts and disbursements are to be on-budget and included in the Government's budget totals.

EXPLANATION OF THE CORPORATION AND ITS FUNCTIONS

Administration

The Pension Benefit Guaranty Corporation is a wholly owned Government corporation, administered by a board of directors, the chairman being the Secretary of Labor; other directors being the Secretary of Commerce and the Secretary of the Treasury. ERISA provides for a 7-member Advisory Committee, appointed by the President, for staggered 3-year terms. The Advisory Committee is to advise the PBGC as to its policies and procedures relating to the appointment of trustees in termination proceedings, investment of moneys, plan liquidations, and other matters as requested by the PBGC.

Plan Termination Insurance Generally

Individuals protected by the pension plan termination insurance program (Title IV of ERISA) are participants and beneficiaries of defined benefit pension plans that either affect interstate commerce or are qualified under the Internal Revenue Code. Only vested benefits are insured. Pension plans specifically excluded from the plan termination insurance program are government and church plans, individual account plans (i.e., defined contribution plans such as profit-sharing, money purchase, thrift and savings, and stock bonus plans), and plans of fraternal societies financed entirely by member contributions.

A. Single-Employer Plans

Terminated single-employer plans are taken over by the PBGC and a trust fund is established for plans taken into trusteeship. The PBGC assumes control of the plan assets and takes responsibility for the expected plan liability. The trust pays the share of benefit payments actually funded by plan assets and employer liability. The balance is paid by the revolving funds.

Pension benefits for vested employees under defined benefit plans are guaranteed by the PBGC. The limitation on insured benefits under single-employer plans is the lesser of 100 percent of the employee's wages or $1,789.77 a month. The dollar amount is adjusted annually to reflect changes in the Social Security contribution and benefit base.

B. Multi-Employer Plans

For multiemployer pension plans, the PBGC insures plan insolvency rather than plan termination. Financially troubled multiemployer plans may reorganize and adjust benefits under regulations of the PBGC which may extend loans to enable the plans to continue paying benefits.

Different benefit guarantee levels exist for participants in multiemployer pension plans. As a result of the Multiemployer Pension Plan Amendments Act of 1980 (Public Law 96-364), only the first $5 of the monthly benefit accrual rate is 100 percent guaranteed for each year of a participant's service, and 75 percent of the next $15 of the basic monthly benefits is guaranteed. (The 75 percent guaranty is reduced to 65 percent for plans that do not meet specified funding requirements.)

Financing

The PBGC is required by ERISA to be self-supporting. Sources of financing are insurance premiums from on-going defined benefit pension plans, assets from terminated plans, investment income and employer liability. Any change in the PBGC's insurance premium rate for single employer pension plans must be approved by a joint resolution of Congress. The PBGC may increase the premium rate for multiemployer plans up to certain limits imposed by law. The financial structure of PBGC's programs includes both revolving and trust funds, borrowing authority, and other sources of income.

A. Revolving Funds

Four revolving funds are employed to insure basic and non-basic pension plan benefits. One fund is used in connection with the basic benefits and contingent liability insurance programs related to single employer plans. A second fund is used in connection with the basic benefits and contingent liability insurance programs related to multiemployer plans. A third fund is associated with non-basic benefits insurance programs related to single employer plans. A similar fund, the fourth revolving fund, is used in connection with non-basic benefits insurance programs for multiemployer plans.

B. Trust Funds

(1) *Plan Assets*. The assets of plans for which PBGC has become trustee are the primary source of funding for the trust fund.

(2) *Employer Liability*. An employer sponsoring a covered pension plan that terminates with insufficient assets to pay benefits is liable for up to 30 percent of the employer's net worth in the case of single employer plans, and in the case of multiemployer plans, an amount equal to an employer's share of the plan's total unfunded vested liability determined under the basic rule or one of the alternative rules which the plan may adopt.

(3) *Investment Income.* Assets of plans and employer liability collections are invested in a diversified portfolio of private and public sector securities to realize the highest possible rate of return consistent with an appropriate level of risk for the type of program administered.

C. Sources of Income

(1) *Insurance Premiums.* The principal source of revenue for the plan termination insurance program is premiums required to be paid by ongoing covered plans. The PBGC is required to prescribe insurance premium rates and coverage schedules to provide sufficient revenues to carry out its title IV functions, including the payment of guaranteed benefits and administrative expenses. Premiums for each participant in a single employer plan are set at $2.60. Multiemployer plans are assessed a per capita premium rate beginning with $1.00 increasing to $1.40 for the first four plan years beginning after September 26, 1980; $1.80 for the fifth and sixth plan years; $2.20 for the seventh and eighth plan years; and $2.60 for the ninth and succeeding plan years.

D. Borrowing Authority

In addition to the premium and investment incomes which are generated for the revolving funds, the PBGC is authorized to borrow up to $100 million from the United States Treasury to carry out its responsibilities.

Termination insurance programs cover 33 million participants and beneficiaries in defined benefit pension plans.

The following tables show the status of the PBGC's insurance programs and its financial condition. In budgetary terms, PBGC outlays are basically benefit obligations minus income to the funds. As long as this income exceeds the amount of benefit obligations, outlays are presented as a negative figure.

TABLE 1.—CURRENT FINANCING AND OUTLAYS OF THE PBGC

[In millions]

	1985 actual	1986 estimate	1987 estimate
Obligations:			
Benefit payments	161.0	252.2	289.6
Other	34.3	35.3	40.0
Total	195.3	287.5	329.6
Financing:			
Premium income	95.3	98.6	102.9
Benefit payment reimbursement	76.3	101.9	114.1
Other (primarily interest)	38.7	26.3	20.0
Total	210.4	226.8	237.0
Outlays as shown in Federal budget	−19.1	40.0	92.5

Source: Fiscal year 1987 Budget of the United States, appendix.

TABLE 2.—FINANCIAL CONDITION OF FUNDS

[In millions]

	1984 actual	1985 actual	1986 estimate	1987 estimate
Assets	304.1	346.4	482.5	592.8
Liabilities	832.6	1,644.9	1,861.2	2,043.3
Government equity	−528.5	−1,298.5	−1,378.7	−1,450.6

Source: OMB Budget Appendices for fiscal year 1987.

The following table provides information on terminated plans and trusteeships.

TABLE 3.—PLAN TERMINATIONS AND TRUSTEESHIPS

	1985 actual	1986 estimate	1987 estimate
Plans terminated during year:			
With sufficient assets	8,635	8,000	8,000
With insufficient assets	44	100	100
Government trusteeships at end of year	1,107	1,207	1,307
Payees in Government trusteeships receiving monthly benefits from the Corporation	74,800	88,000	100,000
Checks issued	479,500	540,000	1,131,600

Source: Fiscal year 1987 Budget of the United States, appendix.

Section 4. Capital Construction Fund

LEGISLATIVE HISTORY

The Merchant Marine Act of 1936, as originally enacted, contained provisions providing preferential tax treatment for shipowners who establish Capital Construction Funds (CCF). Numerous amendments to the provisions have been adopted over the years. In 1970, the Merchant Marine Act was amended to expand the coverage of the provisions of a Capital Construction Fund and to lay out more specifically the tax treatment under these provisions. (Prior to 1970, the tax-deferred construction fund was available only to U.S. ship operators in subsidized foreign trade; the 1970 amendments extended the use of the provisions to operators in unsubsidized foreign trade as well and, in addition, to operators in the Great Lakes trade, the non-contiguous domestic trade—such as that with Alaska, Hawaii, and Puerto Rico—and in the fisheries of the United States.) Under the procedural rules adopted by the House in 1974 (H. Res. 988) which specifically established the jurisdiction of each House committee, it is clear that jurisdictional responsibility for the tax aspects of Capital Construction Funds fall within the jurisdiction of the Committee on Ways and Means.

GENERAL EXPLANATION

Any citizen of the United States owning or leasing one or more eligible vessels may enter into an agreement with the Secretary of Commerce to establish a Capital Construction Fund with respect to any or all such vessels.

Under the Capital Construction Fund provisions, any U.S. shipowner can defer the tax on income from the operation of "eligible vessels" if the shipowner deposits that income into a Capital Construction Fund established to accumulate funds for the acquisition (including construction and reconstruction) of "qualified vessels." Income from amounts deposited in a Fund are not taxed currently. In addition, no tax is imposed on amounts from the fund if the amounts are withdrawn to acquire a qualified vessel. (The tax is payable, with interest, from the date of deposit if the funds are used for any other purpose.) Earnings and profits of the firm are determined without regard to the Capital Construction Fund provisions. Excess accumulated earnings (for purposes of applying the accumulated earnings tax under Internal Revenue Code section 531) are computed without taking amounts in the fund into account. When withdrawals from the Capital Construction Fund are used to acquire, construct, or reconstruct a qualified vessel, the tax basis (for the purpose of determining the gain on the sale or depreciation deductions) of the vessel is reduced to the extent the cost of acquisition is attributable to tax-deferred income or gains deposited in the Fund or to the tax-exempt earnings of the Fund. Thus, the deferred tax will in effect be recaptured by the Federal Government over the recovery period of the acquired vessel as a result of its reduced basis for purposes of computing recovery allowances (unless of course, those earnings are redeposited in the Capital Construction Fund for the acquisition of other vessels). For purposes of determining the amount of investment tax credit allowable for withdrawals from the Capital Construction Fund, Internal Revenue Code section 46(g) deems the amount of the qualified investment to be 50 percent of the withdrawal.

To be an eligible vessel (the earnings of which may be tax-deferred), a vessel (1) must have been constructed or reconstructed in the United States, (2) must be documented under U.S. law, and (3) must be operated in the foreign or domestic commerce or fisheries of the United States. Under present law, qualified vessels (those that can be acquired with amounts withdrawn from a capital construction fund) include vessels (1) constructed or reconstructed in the United States, (2) documented under U.S. law, and (3) operated in the foreign, Great Lakes, fisheries, or non-contiguous domestic trade (e.g., U.S. mainland to Hawaii or Alaska) of the United States.

The statutory provisions relating to Capital Construction Funds are located at 46 U.S.C. 1177.

The "Estimates of Federal Tax Expenditures for Fiscal Years 1985-89" (published by the Joint Committee on Taxation on April 12, 1985) estimates the loss of Federal revenue due to the deferral of tax on shipping companies as follows (billions of dollars):

	Revenue loss
Fiscal years:	
1986	0.2
1987	.2
1988	.2
1989	.3
1990	.3

See part I, Section 1 of this document for a discussion of pending legislation which would modify capital construction fund taxation.

BLANK PAGE

PART 5

DESCRIPTION OF THE BALANCED BUDGET AND EMERGENCY CONTROL ACT OF 1985, PUBLIC LAW 99-177

BLANK PAGE

Section 1. Description of Public Law 99-177[1]

Maximum Deficit Amounts

The Balanced Budget and Emergency Deficit Control Act of 1985 (referred to as the "Act") stipulates that budget deficits must be decreased annually and specifies measures that must be taken to achieve this result. The maximum deficit amounts specified by the Act are:

MAXIMUM DEFICIT

Fiscal year:	Billions
1986	$171.9
1987	144.0
1988	108.0
1989	72.0
1990	36.0
1991	Zero

If the deficit is estimated to exceed the maximum level by any amount in 1986 and 1991, or by more than $10 billion in 1987–1990, an automatic spending reduction procedure is triggered to eliminate the excess deficit through the sequestration of budgetary resources. Except for trust and special funds, this involves the permanent cancellation of new budget authority and other authority to obligate and expend funds. For 1986, the outlay reduction is limited by the Act to a maximum of $11.7 billion, regardless of the amount of the excess deficit. In later years, the amount of outlay reductions necessary to reach the deficit target is not limited.

Sequestration may only be triggered once per fiscal year and any sequestration order issued remains in effect for that fiscal year only. COLA reductions last for one year from the time the reduction takes place. The process must start all over again to determine whether a sequestration order would be issued in the next fiscal year.

Sequestration Timetable

The first step in the sequestration process is a joint report by the Director of the Office of Management and Budget (OMB) and the Director of the Congressional Budget Office (CBO) to the Comptroller General. The timetable for the entire sequestration process is shown in Table 1.

---

[1] This section borrows heavily from "A Summary: The Balanced Budget and Emergency Deficit Control Act of 1985 (P.L. 99-177)", Committee on the Budget, U.S. House of Representatives and various CBO and GAO reports required under the Act.

TABLE 1.—SEQUESTRATION TIMETABLE

	Fiscal years 1987–1991	Fiscal year 1986
Initial Snapshot by CBO/OMB	Aug. 15	Jan. 10
Presidential Notification re: Military Personnel	NA	Jan. 10
Initial Joint CBO/OMB Sequestration Report	Aug. 20	Jan. 15
Initial GAO Sequestration Report	Aug. 25	Jan. 21
Initial Presidential Sequestration Order	Sept. 1	Feb. 1
Presidential Notification re: Defense Contracts	Sept. 5	Jan. 15
GAO Certifies Defense Contract Savings	Sept. 30	Feb. 15
Modifying Sequestration Order re: Defense Contracts	(1)	(2)
Funds Deferred Pursuant to Order	Oct. 1	Feb. 1
Final CBO/OMB Snapshot	(3)	NA
Final Joint CBO/OMB Sequestration Report	Oct. 5	NA
Final GAO Sequestration Report	Oct. 10	NA
Final Presidential Sequestration Order	Oct. 15	NA
Funds Cancelled Pursuant to Order	Oct. 15	Mar. 1
GAO Compliance Report	Nov. 15	Apr. 1

[1] Findings of GAO are incorporated into the final reports.
[2] Before March.
[3] Before Oct. 5.

Note: NA means "not applicable."

On August 20, (January 15, 1986) the Directors of CBO and OMB issue a joint report to the Comptroller General (GAO) on the deficit for the coming fiscal year.

The report contains the following items for such fiscal year:

The estimated levels of total outlays and total revenues, the amount of any excess deficit, and whether such excess is greater than $10 billion (zero in fiscal years 1986 and 1991);

The estimated rate of real economic growth (for each quarter of such year, and for each of the last two quarters of the preceding year), and whether negative real economic growth for two or more consecutive quarters is part of such estimate.

If the deficit is $10 billion over the MDA ($0 in fiscal years 1986 and 1991), then the base from which reductions (sequestrations) are to be made; by account for nondefense programs, and by account and by program, project, and activity (PPA) within each account for defense; and the amounts and percentages by which such accounts and PPAs must be reduced during such fiscal year to eliminate the excess.

The amount of automatic spending increases (COLAs) which are scheduled to take effect in programs with such increases, the amount and percentage by which such increases are to be reduced, the amount of deficit excess eliminated by such reductions, and the percentage (if any) of such increases after the reductions.

The amount of savings achieved in programs with special rules.

Upon receiving the OMB/CBO report, the Comptroller General (GAO) shall review it and make his own determination of the deficit level and all the other sequestration calculations, with due regard for the OMB/CBO report. The Comptroller General shall issue a report to the President and Congress which sets forth the same items as in the OMB/CBO report.

The Comptroller General must also explain any differences between the contents of his report and the report of OMB/CBO.

On September 1, the President must issue any required sequestration order based upon the August GAO report. (January GAO report in the case of fiscal year 1986). This is called the "initial" order. It must eliminate the full amount of the excess deficit in strict accordance with the requirements of the Act, e.g., special rules, exempted programs, 50/50 defense/nondefense split.

The Act requires that the President's order provide for reductions as set forth in the GAO report, incorporate the provisions of such report and be consistent with such report. The President may not modify or recalculate any of the estimates, determinations, specifications, bases, amounts or pecentages as defined in the GAO report.

Additionally, the President must transmit to Congress a message containing the same information as required in the CBO/OMB report, and specifying within each defense and non-defense account, for each program project or activity, or budget account activity, the case from which such sequestration is made and the amounts which are to be sequestered from each PPA. The President may also submit such other supporting details as he deems appropriate. This message is referred to all committees with jurisdiction over programs, projects, and activities affected by the order.

The President may also submit to Congress alternatives to the sequestration order. Their form is not defined and procedures for their consideration by Congress are not specified. It is assumed that the appropriate committees of jurisdiction would review any alternatives submitted.

A second snapshot of the deficit is made by OMB/CBO before they issue a revised report on October 5. There is no second procedure for fiscal year 1986. This revised report is reviewed by GAO which then issues its final report to the President on October 10. On October 15, the President must issue his final order modifying the initial order, as necessary, to reflect the revised GAO report.

If an initial sequestration order is issued by the President, Congress can modify or totally avoid a final sequestration order by enacting legislation between the two snapshots of the deficit August 15 and October 5. Enacted legislation which reduces (or eliminates) the excess deficit will result in a modified (or no order) order. If the deficit increases, the order is adjusted as well. However, if legislation is enacted after the second snapshot is taken by CBO/OMB, the order is not automatically modified. Scuh legislation must contain provisions which *specifically* modify or supersede the pending order.

If an initial sequestration order was not issued because the MDA was not exceeded by $10 billion for fiscal years 1987–1990 ($0 for

1991); but legislation is enacted between August 15 and October 5 which increases the deficit such that the MDA is exceeded by more than $10 billion ($0 billion for 1991); then a final sequestration order will be issued.

SEQUESTRATION

"Sequestration" is the automatic formula reduction of "budgetary resources" required by the Act. It occurs, once each fiscal year, if and only if the Comptroller General projects that the MDA will be exceeded by more than a specified cushion. The cushion is zero in fiscal 1986 and 1991, and $10 billion in fiscal 1987–1990.

The Snapshot

Twice each fiscal year, in August and October, the Directors of (2) economic, demographic, and other estimating factors. Using existing Federal laws and estimating factors they project total outlays, revenues, and deficit—the budget base.

lays, revenues, and deficit—the budget base.

The August snapshot is preliminary. Although the Directors make resulting budget and sequestration calculations (as do GAO and the President), spending is not canceled as a result of that snapshot. Spending is merely deferred until the results of the October snapshot are known. Thus the August snapshot and calculations are primarily a warning.

The budget picture is frozen on the date of the final snapshot. The Directors do not account for any legislation enacted after the snapshot nor do they consider any new economic or demographic data obtained after the snapshot. There is only one snapshot on January 10 for fiscal year 1986.

For fiscal 1987–1991, the final snapshot date occurs just before October 5 (i.e., just a few days after the start of the fiscal year).

The Budget Base

The Directors calculate the budget base by using the Federal laws and estimating factors that were frozen in place on the snapshot date. The calculations employ the following rules:

1. Only enacted law is considered. The Directors do not attempt to anticipate the outcome of legislation still working its way through Congress. Enacted entitlement law, including any required COLA, is projected at the full estimated cost.
2. The Directors assume the expiration of tax laws and direct spending laws (such as entitlements) that are scheduled to expire during the fiscal year in question. The Act specifies that, not withstanding the general rule, excise taxes deposited into trust funds are not assumed to expire, and CCC crop price supports are not assumed to expire.
3. If a 12-month appropriation for a discretionary program has not been enacted, the Directors must use "prior year appropriations". This would include regular appropriations as modified by enacted supplementals or recessions and the final sequestration order from the previous year, if any. Although a full-year continuing appropriation is counted, a temporary continuing appropriation is not considered for the purpose of the budget base.
4. In estimating outlays, the Directors do not consider any deferrals reported pursuant to the Impoundment Control Act.

5. The Directors do not alter their economic or technical estimating factors between the August and October snapshots. Therefore, changes in the budget base result only from newly enacted law or newly promulgated regulations.

6. The Directors are to assume that Federal pay levels will be as recommended by the President, but the assumed increase in pay may not be less than zero. Medicare payment increases for hospitals are based upon final regulations issued by the Health Care Financing Administration.

SEQUESTRATION RESOURCES

The required reductions in outlays are not made directly; rather, they are to be achieved by the permanent cancellation of budget authority and other authority to obligate and expend funds—referred to under P.L. 99-177 as sequestration. For defense programs, sequesterable budgetary resources are new budget authority provided for 1986 and unobligated balances of budget authority provided in previous years. For nondefense programs, the sequesterable budgetary resources are new budget authority, new direct loan obligations, new loan guarantee commitments, obligation limitations, and spending authority as defined in section 401(c)(2) of the Congressional Budget Act of 1974 (spending authority not subject to the annual control of the appropriations process). Included in this definition of spending authority are federal payments financed by offsetting collections that are credited to budget accounts as well as various permanent appropriations.

Not all budgetary resources are subject to sequestration. The Act creates four different categories of programs.

1. *Completely Exempt Programs.* Other than their Federal administrative costs, the following programs are completely exempt:

Net Interest;
Social Security retirement and disability;
Railroad Retirement Tier I (the Social Security equivalent);
Veterans Compensation and Pensions;
State Unemployment Compensation;
Earned Income Tax Credit;
Selected "Low-Income" programs: AFDC, SSI, Food Stamps, Child Nutrition, WIC, and Medicaid;
Federal power administrations: TVA, BPA, WAPA, SWAPA, SEAPA, and APA;
Postal Service Fund (but not the Federal subsidy);
Accounts paying claims against the U.S., including Claims, Judgments, and Relief Acts; Defense Claims; Payments to Copyright Owners; Eastern Indian Land Claims; Vietnam and USS Pueblo POW Claims; and Soldiers and Airmen's Home Claims;
Constitutionally protected salaries: Compensation of the President, and Salaries of Article III Judges.
Non-U.S. funds of three types: Foreign Military Sales Trust Fund; activities from private bequests, donations, or voluntary contributions; and appropriations for D.C. (but not the Federal subsidy);
Payments from one Federal account to another, since these do not constitute Federal outlays;
A few minor technical exemptions.

2. *Partially protected programs.* These programs are of two types: COLA programs and Special Rule programs. The reductions are limited as described below:

COLA programs, also known as Automatic Spending Increases, may have their COLAs reduced or frozen but their benefit base is protected, that is, the COLAs may not become negative. The programs with automatic spending increases subject to sequestration by the Act are listed in Table 2.

The scheduled percentage increases for fiscal year 1986 are shown as well as the amount of estimated outlay savings to be gained by eliminating these increases. The COLAs for fiscal year 1986 are completely eliminated. The independent OMB and CBO estimates for the amounts to be reduced by sequestration are very similar. Table 2 shows the average of these estimates for each program.

TABLE 2.—AUTOMATIC SPENDING INCREASES FOR 1986 SUBJECT TO SEQUESTRATION

[Outlays in millions of dollars]

Program	Scheduled increase (percent)	Sequestration reductions	
		Outlays	Percent
Part A, retirement and disability programs:			
Black lung benefits [1]			
CIA retirement and disability system fund	3.1	(2)	100
Civil service retirement and disability fund	3.1	534.5	100
Comptrollers general retirement system	3.1	(3)	100
Foreign service retirement and disability fund	3.1	5.9	100
Judicial survivors' annuities fund [1]			
Longshoremen's and harbor workers' compensation benefits [4]	2.7		
Military retirement fund	3.1	409.1	100
NOAA retirement	3.1	0.2	100
Pensions for former Presidents [1]			
Railroad Retirement Tier II [5]	1.0	18.0	100
Retired pay, Coast Guard	3.1	8.6	100
Retirement pay for commissioned PHS officers	3.1	2.3	100
Special benefits, FECA [6]	3.4	15.0	100
Special benefits for disabled coal miners [1]			
Tax Court judges survivors annuity fund [1]			
Total, part A		993.5	
Part B, other indexed programs:			
National Wool Act [7]	4.8	10.3	100
Special milk program [8]	−2.6		

TABLE 2.—AUTOMATIC SPENDING INCREASES FOR 1986 SUBJECT TO SEQUESTRATION—Continued

[Outlays in millions of dollars]

Program	Scheduled increase (percent)	Sequestration reductions	
		Outlays	Percent
Vocational rehabilitation [9]	4.2	34.5	100
Total, part B		44.8	

---

[1] Benefits are indexed to General Schedule, judicial, or Executive Level pay, which did not increase for fiscal year 1986.

[2] Classified.

[3] Less than $50,000.

[4] The automatic spending increase in this program took effect October 1, 1985 before enactment of P.L. 99-177. Benefits were indexed to the change in national average private weekly earnings from October to June 1984 to October to June 1985.

[5] Tier II beneficiaries receive 32.5% of the sceduled full year increase in the CPI-W.

[6] The scheduled percent increase is the estimated change in the CPI-W from December 1984 to December 1985.

[7] Payment increases are based on changes in the wool parity price.

[8] Benefits are indexed to the Producer Price Index for Fresh Processed Milk which is estimated to decline during the measuring period for the 1986 COLA (May 1985 to May 1986).

[9] Authorization level is indexed to the change in the CPI-U from October 1983 to October 1984.

Sources: Congressional Budget Office, Office of Management and Budget, and General Accounting Office.

Special Rule programs may be cut by specified, limited percentages or amounts. This section describes these special rules.

Guaranteed Student Loan Program

The Act requires two changes in the guaranteed student loan (GSL) program to occur automatically under sequestration. First, the statutory factor for calculating the special allowances for lenders will be reduced by 0.40 percentage points in the first year of the loan. Second, a student's origination fee will increase by 0.50 percentage points. In both cases, sequestration affects only GSL loans made during the applicable fiscal year, but after the order is issued. For 1986, these changes are estimated to reduce budget authority by $34.1 million and outlays by $9.6 million.

Foster Care and Adoption Assistance Programs

The Act limits the amount available for sequester in the foster care and adoption assistance programs to increases in foster care maintenance payment rates or adoption assistance payment rates taking effect during the current fiscal year. The increases in payment rates for these programs are made by the states and localities.

Sequestration provides for no federal matching for payment increases during fiscal year 1986 beginning March 1. States are to receive federal matching for increases in fiscal year 1986 after October 1, 1986. The estimated savings in 1986 from sequestration are $6.6 million in budget authority and $5.1 million in outlays.

Medicare

The Sequestration reductions in the medicare program are to be achieved by reducing payment amounts for covered services. No changes in co-insurance or deductible obligations are to be made, and covered services are unaffected under a sequestration order. Under such an order, each payment amount would be reduced by a maximum of 1 percent for fiscal year 1986 and 2 percent for each subsequent year in which there is sequestration, relative to whatever level of payment would otherwise be made under medicare law and regulation. The reduction would be proportionately reduced in any year in which the excess deficit is small enough to permit a smaller reduction. Based on the need for the maximum sequestration allowed under the Act in 1986, a reduction of 1 percent will be required for this year. The estimated outlays savings to be achieved in 1986 by applying this special rule is $300 million. In addition, the sequestration of medicare administrative expenses is estimated to save another $74.5 million in outlays. Unlike the COLA, this medicare reduction last for only one year.

Veterans' Medical Care and Other Health Programs

The Act limits reductions in budget authority for veterans' medical care, community and migrant health centers, and Indian health services and facilities to 1 percent in fiscal year 1986 and 2 percent in any subsequent fiscal year. The amount of savings to be achieve in 1986 by applying this special rule for the nonadministrative funds in these programs is $97.9 million in budget authority and $82.6 million in estimated outlays. Application of the uniform sequestration reduction percentage to the administrative funds in these programs yields additional savings of $35.6 million in budget authority and $33.4 million in outlays.

Child Support Enforcement Programs

In the child support enforcement (CSE) program, the Act provides that sequestration of entitlement payments to states, including incentive payments from the assistance payments account, is to be accomplished by reducing the federal matching rates for state administrative expenses. For 1986, the federal matching rate on most expenditures will be reduced from 70 percent to 66.65 percent; the rate for computer-related expenditures will be reduced from 90 percent to 85.69 percent. This reflects a reduction in the matching rates by the same 4.3 percent applied to other nondefense programs, adjusted to allow also for the sequestration of spending on incentive payments. If a sequestration order in 1987 is required; the reduction would be from the 1987 percentage and not from 66.65 percent.

The amount of savings to be achieved in 1986 by applying this special rule is estimated to be $31.7 million in budget authority and $31.4 million in outlays.

Unemployment Compensation Programs

The Act provides that the following items are not available for sequester: regular state unemployment benefits, the state share of extended unemployment benefits, benefits paid to former federal employees and former members of the armed services, and loans and advances to the state and federal unemployment accounts. The federal share of extended benefits, federally paid benefits, including benefits paid under the Railroad Unemployment and Sickness Insurance program, and administrative expenses are available for sequester. The Act also provides that states may, without penalty, reduce their share of federal-state extended unemployment benefits if the federal share of benefits is reduced by a sequester order.

The amount of the percentage reduction in payments to the states under section 204 of the Federal-State Extended Unemployment Compensation Act of 1970 for fiscal year 1986, effective March 1, 1986, is 4.3 percent. The estimated amount of outlay savings that will be achieved in 1986 by applying this special rule to the federal share of extended benefits and federally paid benefits and administrative expenses is $74 million. The sequestration of unemployment benefits for railroad workers would save another $7.8 million.

Commodity Credit Corporation

The Act requires that payments and loan eligibility under any contract entered into by the Commodity Credit Corporation (CCC) after a sequester order has been issued for a fiscal year be subject to a percentage reduction. The Act requires that reductions for all farm commodities supported by the CCC be made in a uniform manner, including all noncontract programs, projects, and activities within CCC's jurisdiction. The Act further stipulates that outlay reductions in the post-sequester year that are the result of contract adjustments in the sequester year should be credited to the overall outlay reduction required in the sequester year. The amount of outlay savings to be achieved by applying this special rule is estimated to be $0.4 billion in 1986, and $0.4 billion in 1987. The actual amount of savings realized in each year will depend upon how the sequester is implemented for the various CCC programs. In accordance with the Act, however, all of these estimated outlay savings are credited toward the $11.7 billion spending reduction required for 1986.

Mine workers disability compensation

Increases in disability benefits under the Federal Mine Safety and Health Act are to be treated in the same manner as other automatic spending increases. This Act covers black lung and special benefits for disabled coal miners, which are indexed to changes in federal pay for civilian employees. Since there will be no change in these pay levels in 1986, no savings will result from the application of this special rule.

Federal pay

The Act provides that rates of pay for civilian emplyees (and rates of basic pay, basic subsistence allowances, and basic quarter allowances for members of the uniformed services), or any scheduled pay increases, may not be reduced pursuant to a sequestration order. Budgetary resources available for federal pay, however, will be subject to sequestration as part of the reduction of administrative expenses. The amount of savings to be achieved in 1986 from reducing available funds for employee compensation cannot be estimated because program managers are urged not to resort to personnel furloughs until other methods of achieving savings prove insufficient, such as reducing spending for travel, printing, supplies, and other services.

Insurance and Guaranteed Loan Programs

These programs may have their new activities subject to sequestration, but costs associated with insurance claims or with loan defaults are exempt. The Act identifies 46 such programs. In general, these programs support themselves through premiums, so that their net Federal cost is near zero.

For credit programs, the governing measures of sequesterable budgetary resources are direct loan obligations and loan guarantee commitments. The Act requires de facto limitations on both types of new credit activity.

Military personnel accounts

For 1986 only, the Act gives the President the authority to exempt all or part of the military personnel accounts from sequestration. The President has decided to use this authority and has exempted $63.1 billion, or 93 percent, of the 1986 appropriations for these accounts.

3. *Prior-year outlays from otherwise nonexempt programs.* Although these programs are subject to across-the-board sequestration, their prior-year outlays generally are not part of the calculations. Just about $100 billion in defense outlays, and a nearly identical amount in nondefense outlays, are thus excluded from the sequestration calculations. However, new funds for the programs in question are completely available for sequestration.

Specifically, for nondefense programs the Act removes from the calculations all outlays resulting from budgetary resources that were provided in prior fiscal years. Only new budgetary resources are sequesterable, and only the resulting "new" outlays are included in the calculations.

Existing contracts in defense programs can be terminated or modified to achieve outlay savings if such action would neither result in a net loss to the government nor violate the legal obligations of the government, and if the President notifies the Comptroller General and the Congress of proposed contract terminations and modifications by specified dates (January 15, 1986 for fiscal year 1986 and not later than September 5 for subsequent years). No defense contract terminations or modifications are proposed for 1986 sequestration reductions.

4. *Offsetting receipts.* These receipts are nontax income of the U.S. deposited in the Treasury's General Fund, and are accounted as "negative spending." An example is the income generated by Outer Continental Shelf Rents and Royalties. The Act exempts such income from sequestration calculations, since sequestration is intended to cut spending, not to increase user fees or speed up auction schedules.

Table 3 provides further detail on the OMB/CBO/GAO base level outlay estimates for 1986. About $110 billion of estimated 1986 outlays for defense programs, or 40 percent of total defense spending, are associated with budgetary resources subject to an across-the-board percentage reduction. The special 1986 exemption for military personnel accounts made by the President removed more than $60 billion in outlays from the sequesterable portion.

About $240 billion, or one-third of estimated outlays for nondefense programs, is associated with sequesterable budgetary resources. Nearly $50 billion in outlays are for programs with automatic spending increases, primarily federal employee retirement and disability programs. For these programs, the amount of spending reduction required by the Act is limited to the cost-of-living adjustments, which are generally 3.1 percent for 1986. Another $87 billion in outlays are associated with certain special rule programs, of which the largest is medicare. The Act also limits the extent of spending reductions for these programs. Only slightly more than $100 billion in estimated 1986 nondefense outlays—about 15 percent—are associated with budgetary resources subject to an across-the-board percentage reduction. Over $380 billion, or more than one-half of total estimated outlays for nondefense programs, are exempt from sequestration by the Act. As shown by Table 3, the major exempt program outlays are mostly for social security and net interest. The remaining portion of nondefense outlays, about $100 billion, results from budgetary resources provided in previous years or from prior legal obligations.

TABLE 3.—BASE LEVEL OUTLAY ESTIMATES FOR 1986

[In billions of dollars]

Category	OMB estimates	CBO estimates	OMB/CBO average	GAO
Defense Programs: [1]				
Subject to across-the-board reduction	106.2	112.4	109.3	110.3
Other [2]	164.7	162.1	163.4	....
Subtotal, defense programs	270.9	274.6	272.8	....
Nondefense Programs:				
Programs with automatic spending increases [3]	48.9	48.4	48.6	....
Certain special rule programs [4]	87.0	87.1	87.1	....
Subject to across-the-board reduction	104.3	106.1	105.2	105.6
Major exempt programs:				
Social security and railroad retirement tier 1	202.6	202.0	202.3	....
Net interest	137.9	136.9	137.4	....
Earned income tax credit	1.3	1.3	1.3	....
Low-income programs [5]	60.9	61.1	61.0	....
Veterans compensation and pensions	14.3	14.3	14.3	....
State unemployment benefits	18.2	18.1	18.2	....
Offsetting receipts	−50.2	−50.5	−50.4	....
Other [6]	98.8	98.7	98.8	....
Subtotal, nondefense programs	724.0	723.4	723.7	....
Total	994.9	998.0	996.5	....

---

[1] Budget function 050 excluding FEMA programs.

federal retirement and disability programs. Another $45 million in savings can be obtained by eliminating the automatic spending increases for vocational rehabilitation grants and the National Wool Act (the special milk program is also an indexed program but in 1986 the change in the price index is projected to be negative). The outlay savings for programs where the spending reductions are limited by special rules (guaranteed student loans, medicare, and so forth) are estimated to be $397 million.

After crediting one-half of the retirement cost-of-living adjustment (COLA) savings to defense programs, the remaining outlay reductions of $5,353 million in 1986 must be obtained by reducing new budget authority and unobligated balances by a uniform percentage. Since the bulk of the military personnel accounts have been exempted by the President from sequestration, 1986 outlays associated with sequesterable budgetary resources for defense programs are estimated to be only $106.2 billion by OMB and $112.4 billion by CBO. The average of these amounts is $109.3 billion. Thus, the uniform percentage to be applied to sequesterable defense budgetary resources is 4.9 percent. The uniform percentage to be applied to nondefense programs, after deducting the savings from one-half of the retirement COLAs and the special rule calculations, is 4.3 percent.

The OMB/CBO/GAO calculations generally assume that all nonexempt budgetary resources can be sequestered so as to produce outlay savings, including entitlement programs and other mandatory spending programs where the spending authority is not controlled through the annual appropriation process. In a few instances where the uniform percentage reduction of budgetary resources would not produce any outlay savings (for example, for credit programs where new direct loan limits are higher than expected program levels), no outlays were included in the sequester base used for calculating the reduction percentages.

TABLE 4.—SEQUESTRATION CALCULATIONS FOR 1986

[Outlays in millions of dollars]

Category	OMB	CBO	OMB/ CBO average	GAO
Defense programs:				
Total required reductions	5,850	5,850	5,850	5,850
Estimated savings from automatic spending increases:				
Indexed retirement programs [1]	496	497	497	497
Amount remaining to be obtained from uniform percentage reductions of budget resources	5,354	5,353	5,353	5,353
Estimated outlays associated with sequesterable budget resources	106,225	112,446	109,335	110,300
Uniform reduction percentage	5.0	4.8	4.9	4.9
Nondefense programs:				
Total required reductions	5,850	5,850	5,850	5,850

[2] Outlays from obligated balances and the portion of military personnel accounts exempted by the President for 1986.

[3] Primarily federal employee retirement and disability programs.

[4] Guaranteed student loans, foster care and adoption assistance, medicare, veterans medical care, community health, migrant health, and Indian health.

[5] AFDC, child nutrition, medicaid, food stamps, SSI, and WIC.

[6] Outlays from prior-year appropriations, certain prior legal obligations, and small exempt programs.

Sources: Congressional Budget Office, Office of Management and Budget, and General Accounting Office.

SEQUESTRATION CALCULATIONS

The Act establishes the following steps for the sequestration calculations. First, the deficit excess is calculated by subtracting the maximum amount from the estimated deficit in the budget base. One-half is assigned to defense programs (budget accounts in function 050) and the other half to nondefense programs.

Second, the total amount of outlay savings from eliminating automatic spending increases is calculated. Provided that the resulting savings are not more than one-half of the total required reduction, the automatic increases are eliminated. One-half of the resulting savings for indexed retirement and disability programs are applied toward the required reduction amount for defense programs and the other half to nondefense programs. All savings from eliminating automatic spending increases in three other specific programs—the National Wool Act, the special milk program, and vocational rehabilitation—are applied to the required reduction in outlays for nondefense programs.

Third, the amount of outlay savings to be obtained by applying four special rules is calculated. These special rules are for guaranteed student loans, foster care and adoption assistance, medicare, and certain health programs, and are described in a later section of this report. The estimated savings from these four special rules are applied toward the required spending reductions in nondefense programs.

The remaining reductions in defense programs and nondefense programs must be taken on a uniform percentage basis, computed separately for each category. The uniform reduction percentages are computed from outlay estimates. The remaining outlay savings to be achieved in defense and nondefense spending are divided by the estimated outlays associated with sequesterable budgetary resources in each category. These uniform percentages are then applied to all of the remaining sequesterable budgetary resources (budget authority, credit authority, and other spending authority) for defense and nondefense programs.

In the event that the Directors of OMB and CBO are unable to agree on any of these calculations, the Act requires that their estimates be averaged to the extent necessary to produce a single, consistent set of data that achieves the required deficit reduction.

Table 4 shows the OMB/CBO/GAO calculations and the averaged amounts for each of the steps described above. The total required outlay reduction for 1986 is $11.7 billion, one-half of which—$5,850 million—must be obtained from defense programs and the other half from nondefense programs. An estimated $994 million in outlay savings in 1986 can be achieved by eliminating the automatic spending increases scheduled for civil service, military, and other

TABLE 4.—SEQUESTRATION CALCULATIONS FOR 1986—Continued

[Outlays in millions of dollars]

Category	OMB	CBO	OMB/CBO average	GAO
Estimated savings from automatic spending increases:				
Indexed retirement programs	496	497	497	497
Other indexed programs	45	45	45	45
Estimated savings from the application of special rules:				
Guaranteed student loans	10	10	10	10
Foster care and adoption assistance	5	5	5	5
Medicare	300	300	300	300
Other health programs	82	83	82	82
Amount remaining to be obtained from uniform percentage reductions of budget resources	4,912	4,911	4,912	4,912
Estimated outlays associated with sequesterable budget resoures [2]	114,444	115,080	114,762	115,200
Uniform reduction percentage	4.3	4.3	4.3	4.3

[1] These retirement programs are not included in the national defense function of the budget; most are included in the income security function.

[2] Includes estimated 1987 outlays for the Commodity Credit Corporation (CCC) that can be affected by a 1986 sequester (see discussion of special rule for the CCC). The OMB estimate is $10,095 million, the CBO estimate is $8,940 million, and the average is $9,518 million.

Sources: Congressional Budget Office, Office of Management and Budget and General Accounting Office.

1986 SEQUESTRATION REDUCTIONS

A summary of the sequestration of budgetary resources and the estimated outlay savings for 1986 is provided for defense programs in Table 5 and for nondefense programs in Table 6.

TABLE 5.—DEFENSE PROGRAM SEQUESTRATIONS FOR 1986

[In billions of dollars]

Function 050	Spending authority [1]	Estimated outlays
Department of Defense—Military:		
Military personnel	0.2	0.2
Operation and maintenance	3.9	2.9
Procurement	6.6	.9
Research, development, test, and evaluation	1.9	.9
Military construction	.5	.1
Family housing and other	.2	.1
Subtotal, DOD	13.3	5.1

TABLE 5.—DEFENSE PROGRAM SEQUESTRATIONS FOR 1986—Continued

[In billions of dollars]

Function 050	Spending authority [1]	Estimated outlays
Atomic energy defense activities	.4	.2
Other defense-related activities [2]	.1	(3)
Total	13.8	5.4

[1] Includes new budget authority for 1986 and unobligated balances from budget authority provided in previous years.

[2] Includes the function 050 portion of Federal Emergency Management Agency budget accounts which are reduced at the same rate as nondefense programs.

[3] Less than $50 million.

Sources: Congressional Budget Office and Office of Management and Budget.

TABLE 6.—NONDEFENSE PROGRAM SEQUESTRATIONS FOR 1986

[In billions of dollars]

Function	Spending authority [1]	Direct loan obligations	Loan Guarantees	Estimated outlays
International affairs	0.9	0.3	0.5	0.5
General science, space and technology	.4			.3
Energy	.3	.2	.1	.1
Natural resources and environment	.6	(3)		.4
Agriculture	.9	.7	.3	[3] 1.0
Commerce and housing credit	.2	.2	5.7	.2
Transportation	1.9	(3)	(2)	.4
Community and regional development	.2	.1	(2)	.1
Education, training, employment, and social services	1.2	(2)		.4
Health	.5	(2)		.3
Medicare	.4			.4
Income security	1.8	(2)		1.3
Social security	.1			.1
Veterans benefits and services	.2	(2)	.5	.2
Administration of justice	.3			.3
General government	.3			.3
General purpose fiscal assistance	.3			.2
Total	10.5	1.6	7.3	6.3

[1] Includes new budget authority, obligation limitations, and other spending authority for 1986.

[2] Less than $50 million.

[3] Includes $0.4 billion in estimated 1987 outlay savings for Commodity Credit Corporation (CCC) programs (see discussion of special rule for CCC).

Source: Congressional Budget Office and Office of Management and Budget.

Outyear impacts

The 1986 sequester order will not only reduce outlays in 1986, but also in fiscal year 1987 and beyond. These outyear impacts have three components:

BEST COPY AVAILABLE

1. Spending authority reductions occurring in 1986 but resulting in outlay reductions in some later fiscal year.

2. COLA reductions which implies that outlays will always be less in the future and

3. Lowering of budget authority in one year causes the spending base for the following years to be lower.

TABLE 7.—OUTYEAR OUTLAY REDUCTIONS RESULTING FROM 1986 SEQUESTER ORDER

[In billions of dollars by fiscal year]

	1986	1987	1988	1989	1990
Effect of 1986 sequestration: [1]					
Nation defense	−5.5	−9.1	−10.6	−11.4	−12.0
Nondefense discretionary	−3.5	−5.1	−5.9	−6.3	−6.7
Entitlements	−2.5	−2.1	−1.6	−1.6	−1.7
Subtotal	−11.4	−16.3	−18.1	−19.3	−20.3

[1] Excludes resulting changes in net interest.

Source: Congressional Budget Office.

Any of these components can be offset by legislation and are not necessarily permanent changes. Table 7 provides an estimate of the outlay impact in future years from the 1986 sequester order. It implictly implies that Congress will not offset the impacts of the initial order.

ILLUSTRATIVE 1987 CALCULATIONS

CBO estimates of 1987 budget base levels are shown in Table 8. The base level deficit for a possible 1987 sequestration is estimated at $166.6 billion, using CBO's February economic forecast. The estimate assumes the following:

—Current tax laws continue unchanged and that expiring provisions will terminate as scheduled except for excise taxes dedicated to a trust fund which are to be extended at current rates.

—General revenue sharing and trade adjustment assistance programs terminate.

—The temporary reduction in federal employee's retirement fund contibutions will expire on April 30, 1986.

—Since no fiscal year appropriations bills have been enacted, the base assumes outlays from 1986 budget authority levels as adjusted by the 1986 sequestration order. These outlay estimates assume no inflation adjustment to budget authority.

—The outlay estimates include proposed pay increases for military and federal civilian employees contained in the President's budget for 1987.

About $172 billion of estimated 1987 outlays for defense programs, or 62 percent of total defense outlays, is associated with budgetary resources subject to an across-the-board percentage reduction. This amount includes $67 billion for military personnel accounts. The special exemption for military personnel accounts made by the President for 1986 will not be permitted in 1987 under the Balanced Budget Act. Outlays for military retirement benefits are included in the nondefense spending category.

TABLE 8.—BASE LEVEL OUTLAY ESTIMATES FOR THE 1987 SEQUESTRATION

Category	Billions of dollars	Percent
Defense programs[1]:		
Subject across-the-board reduction	171.9	17.0
Other[2]	104.6	10.3
Subtotal, defense programs	276.5	27.3
Nondefense programs:		
Programs with automatic spending increases[3]	50.3	5.0
Certain special rule programs[4]	96.2	9.5
Subject to across-the-board reduction	100.3	9.9
Major exempt program:		
Social Security and Railroad Retirement Tier 1	210.2	20.8
Net interest	144.4	14.3
Earned income tax credit	1.2	.1
Low-income programs[5]	64.9	6.4
Veterans' compensation and pensions	14.4	1.4
State unemployment benefits	15.0	1.5
Offseting receipts	−52.1	−5.2
Other[6]	90.0	8.9
Subtotal, nondefense programs	734.7	72.7
Total	1,011.2	100.0

[1] Budget function 050, national defense.

[2] Outlay from obligated balances.

[3] Primarily federal employee retirement and disability programs, including military retirement.

[4] Guaranteed student loans, foster care and adoption assistance, Medicare, veterans' medical care, community health, migrant health, and Indian health.

[5] Aid to Families with Dependent Children, child nutrition, Medicaid, Food Stamps, Supplemental Security Income, and the Supplemental Feeding Program for Women, Infants, and Children.

[6] Outlays from prior year appropriations, certain prior legal obligations, and small exempt programs.

Source: Congressional Budget Office.

About $247 billion, or one-third of estimated outlays for nondefense programs, are associated with sequestrable budgetary resources. Of this total, $50 billion is for programs with automatic spending increases, primarily military and federal civilian employee retirement and disability programs. For these programs, the amount of spending reduction required by the act is limited to the cost-of-living adjustments, which are projected generally to be 3.4 percent for 1987. Another $96 billion in nondefense outlays is associated with certain special rule programs, of which the largest is Medicare. The act also limits the extent of spending reductions for these programs to not more than 2 percent in 1987 and future years.

Only $100 billion in 1987 nondefense outlays-about 14-percent—is associated with budgetary resources subject to an across-the-board percentage reduction. About $400 billion, or more than one-half of total estimated outlays for nondefense programs, is exempted from sequestration by the act. As shown in Table 8, these exempt outlays are mostly for Social Security benefits and net interest costs.

The major elements of calculations for the illustrative 1987 sequestration, using CBO's February economic assumptions, are shown in Table 9

These calculations are essentially the same as in 1986.

TABLE 9.—CALCULATING THE ILLUSTRATIVE SEQUESTRATION FOR 1987

[Outlays in billions of dollars]

Sequestration items	Defense programs	Nondefense programs
Total required reductions	11.3	11.3
Savings from eliminating automatic spending increases:		
Indexed retirement and disability programs	.6	.6
Other indexed programs		[1]
Savings under special rules		1.5
Remaining reduction required	10.7	9.2
Sequestration outlay base	171.9	[2] 109.5
Uniform reduction percentage [3]	6.2	8.4
Required spending authority reduction [4]	21.1	14.6

[1] Less than $50 million.

[2] Includes $9.2 billion in estimated 1988 outlays for the Commodity Credit Corporation that can be affected by a 1987 sequestration.

[3] Remaining required reduction divided by the sequestration outlay base.

[4] Budget authority in the case of nondefense programs and budget authority and unobligated balances in the case of defense programs associated with the outlay reductions of $10.7 billion in defense programs and $9.2 billion in nondefense programs.

Source: Congressional Budget Office.

The budget base levels and calculations of the sequestration are very sensitive to changes in economic assumptions and other factors. For example, the base level deficit for a possible 1987 sequestration ranges from $139 billion to $208 billion under alternative economic assumptions. Factors other than changes in the economic outlook can also affect significantly the estimates of outlays and the deficit. For example, the CBO estimates for 1986 outlays were increased by $16 billion between November 1985 and January 1986 because of Congressional actions and technical reestimates of spending. Similar changes could be made in 1987 CCC outlay estimates in either direction between now and August, if unexpected changes occur in the size of harvests this summer or in farm exports. Another area where major technical reestimates of spending could be made is for defense programs. Reestimates on the order of $3 billion to $4 billion are not uncommon because of changes in spending rates observed in monthly Treasury statements.

For each $10 billion increase in the excess deficit, the uniform reduction percentage for defense programs in increased by about 3.0 percentage points, and for nondefense programs by about 4.5 percentage points, as shown in Table 10.

TABLE 10.—SEQUESTRATION PERCENTAGE REDUCTIONS UNDER ALTERNATIVE BASE LEVEL DEFICIT ESTIMATES FOR 1987

[In billions of dollars]

Base level deficit	Excess deficit	Sequestration percentage[1] Defense programs	Sequestration percentage[1] Nondefense programs
194	50	14.2	20.9
184	40	11.3	16.3
174	30	8.4	11.8
164	20	5.5	7.2
154	10	2.6	2.6

[1] Assumes no changes in the sequestration outlay base for defense and nondefense programs from those shown in Table 8, and no changes in the savings from eliminating automatic spending increases and from applying special rules for Medicare and other programs.

Source: Congressional Budget Office.

IMPACT OF 1986 SEQUESTRATION ORDER ON PROGRAMS WITHIN JURISDICTION OF THE COMMITTEE ON WAYS AND MEANS

Not including impacts on administrative cost, the impact of the 1986 sequester order on programs within the jurisdiction of the Committee on Ways and Means is shown in Table 11 below. The total reduction is $455 million in fiscal year 1986 and $11 million in fiscal year 1987.

TABLE 11.—IMPACT OF 1986 SEQUESTER ORDER ON PROGRAMS WITHIN THE JURISDICTION OF THE COMMITTEE ON WAYS AND MEANS

[In millions]

	Fiscal year— 1986	Fiscal year— 1987
Medicare	300	0
Title XX	109	7
Child Welfare Services (Foster care, adoption assistance, and child welfare services)	12	4
Child support enforcement	33	0
Unemployment compensation	1	0
Total	455	11

BUDGETARY RESOURCES FURTHER DEFINED

Budgetary resources allow an agency's budget officer to incur financial obligations. Budgetary resources are the legal authority to sign binding service or procurement contracts, to hire personnel, to make grants, or to commit to any other payment required by law.

Budgetary resources are most commonly measured by new budget authority (usually called "BA"). Most new budget authority is provided in annual appropriation acts. The remainder is provided automatically by substantive law, and is called "permanent budget authority" or "permanent appropriations." But, for the purposes of the Act, budgetary resources go beyond new budget authority.

The Act treats defense programs differently from nondefense programs. For defense, the sequesterable budgetary resources are (1) new budget authority, and (2) unobligated balances of prior budget authority.

For nondefense programs, there are five different types of budgetary resources that are subject to sequestration.

(1) new *budget authority*;

(2) gross levels of new *direct loan* obligations;

(3) other *obligation limitations* (generally, limitations on programmatic or administrative obligations from trust or revolving funds);

(4) "spending authority defined in Sec. 410(c)(2) of the Congressional Budget Act" (commonly known as "direct spending" or "*backdoor spending*)"; and

(5) new *loan guarantee* commitments.

Loan guarantee commitments are not considered to require budget authority or produce outlays, since they merely guarantee that one private party, a borrower, will repay a loan to another private party, a lender. However, if the borrower defaults the U.S. must bear the costs. Default payments are Federal outlays, but are exempt from sequestration.

Sequestration of loan guarantees reduces the government's contingent liability. In the long run, this would lead to lower default payments. Since most loan guarantee programs are self-financed (up-front premiums cover expected defaults), sequestration will have the shortrun effect of slightly reducing Federal income from premiums.

Programs with two types of budgetary resource are numerous. For example, the Federal-aid highway program receives new budget authority (in the form of contract authority) and has an obligation limitation. Many direct loan programs receive new budget authority (in the form of borrowing authority) though they are controlled by loan limitations. Some entitlements (a common form of backdoor spending) receive annual appropriations of budget authority in appropriation bills.

In general, if a program is controlled by both definite budget authority and another budgetary resource, then both budgetary resources are reduced through sequestration. If a program receives indefinite budget authority ("such amounts as may be necessary" but is controlled by a different budgetary resource, such as a direct loan limitation, then only the latter resource is directly reduced through sequestration. The amount of indefinite budget authority will automatically be reduced as a consequence, though not necessarily by the same amount or percentage.

Program, Project, or Activity (PPA). The Act requires that, in implementing sequestration, the President cut each "program, project, or activity" (PPA) within a budget account by the same percentage.

There are single-purpose accounts (e.g. revenue sharing) as well as multi-purpose accounts. For example, the Budget Appendix lists eight "activities" within the Training and Employment Services account: Block Grant to States: Summer Youth Employment; Dislocated Worker Assistance; Native Americans; Migrant and Seasonal Farmworkers: Job Corps: Veterans Employment: and National Activities. The intent is that sequestration reduce each PPA by the same percentage.

The term "program, project, and activity" does not have a statutory definition. Instead, the Act specifies that, for accounts funded through annual appropriations, the term is to be defined each year in appropriation bills (perhaps through earmarks) or in their accompanying reports.

For fiscal 1986, the statement of managers accompanying the final continuing appropriations contains the necessary definitions. Those definitions of PPA range from very broad to very narrow. For example, the Legislative Branch PPA's are synonymous with each appropriation account, so that there is complete flexibility within each account. In contrast, for the Soil Conservation Service the definition of PPA includes individual flood prevention projects and individual operational watershed projects.

For both defense and nondefense accounts, the amounts cut from each PPA are not specified until the Presidential order and accompanying message are issued. Although not required by the Act the Directors report specified the reductions in the defense PPA's.

In applying the percentage reduction to each PPA; the President is not given new authority to alter the relative priorities in the Federal budget that are established by law and no person who is or becomes eligible for benefits under any provision of law shall be denied eligibility as a result of sequestration. For example, this meant that the reduction in low-income home energy assistance was not uniform across states because authorizing law for this program contained certain hold-harmless provisions.

DEFENSE FLEXIBILITY

The Act grants three types of flexibility to the President in applying sequestration to defense. (1) For fiscal 1986 only, the President may exempt Military Personnel from sequestration. (2) For fiscal year 1986 only, the President may make nonproportional cuts to PPAs within an individual defense budget account. (3) In all years, the President may, for a given defense PPA, reduce existing contracts in lieu of sequestering new budget authority or unobligated balances.

1. Exemption of Military Personnel.—For fiscal 1986 only, the President may exempt all or part of Military Personnel expeditures from sequestration. Since the full amount of required outlay savings must still be achieved, the defense cut must come entirely from a smaller base of sequesterable budgetary resources. Consequently, the percentage reduction to the remaining budgetary resources will be greater.

2. Flexibility Among Defense PPAs.—For fiscal 1986 only, the President is allowed to sequester as little as zero or as much as twice the percentage from any PPA. In other words, each defense

PPA could be cut by anywhere from zero to 9.8 percent. There are three restrictions on the use of this authority:

(a) The total amount of budgetary resources sequestered from each budget account must still meet the required cut of 4.9 percent. Therefore, this flexibility moves funds from PPA to PPA within an account, but does not move funds between accounts.

(b) This flexibility may not result in base closures.

(c) This flexibility may not cut a PPA by more than the standard rate (4.9 percent) if that PPA is a "special interest" item (i.e., if the PPA was funded 10 percent above the administration's request).

The Act requires the President to show how this flexibility will be used when he makes his sequestration report on February 1. He chose to provide the Directors with this information in advance of their Janaury 15 report, and they incorporated his decisions into their report. The President used this flexibility primarily to protect Star Wars research.

3. Authority to Sequester Obligated Balances.—For all years, the President has the authority to achieve sequestration within a given PPA by modifying or canceling existing contracts. The savings from contract modification would replace, in whole or in part, the savings otherwise required by sequestration. There are four conditions on the use of this flexibility:

(a) The Directors, Congress, and the GAO must be notified of the specific contract modifications in advance of sequestration, and must be provided with an estimate of the budgetary resources to be canceled and the outlays to be saved.

(b) GAO must certify that the estimates are "reasonable."

(c) The combination of sequestration and contract modification within a PPA must produce the outlay savings otherwise required. If contract modification would reduce outlays in the PPA by less than the required sequestration amount, then the shortfall must be made up through sequestration from the PPA, using the PPA's spendout rate as calculated by the Directors and GAO.

(d) If contract modification would reduce outlays in the PPA by more than the required sequestration amount, then the excess savings are not credited to any other PPA.

The President did not choose to use this flexibility in fiscal 1986. It should be noted that this flexibility is conditional upon meeting the required outlay savings. If the "savings rate" from modifying a contract is different from the first-year spendout rate for that PPA, the use of this flexibility would result in a different reduction in budgetary resources than otherwise required. Reductions in a procurement item that is already being delivered might result in a savings rate of one-to-one, so that budget authority reductions would be significantly less than otherwise required.

It should also be noted that the general authority to modify or cancel defense contracts exists independent of the Act. Therefore, if the President chooses to modify contracts outside of the sequestration process, he would be able to free up (deobligate) budgetary resources and make them available for other purposes. Combined with general reprogramming authority, those freed-up resources could be used to supplement funding for other PPAs within the same budget account. Thus, the flexibility granted in the Act is more restrictive than general authority that the President still retains.

MISSING DATA

The conferees recognized that outlay rates for new budget authority or unobligated balances may be unavailable for many programs, projects and activities within Function 050. To the extent necessary to carry out their reporting functions, as specified in the bill, the Directors of the Congressional Budget Office and the Office of Management and Budget are expected to develop the necessary data bases to estimate these outlay rates. In any event, the conferees expect the Directors to meet the timetables specified in the bill. Where adequate data are not available the Directors should assume that the outlay rate for the account governs. If an outlay rate for unobligated balances is unavailable, the outlay rate for new budget authority is to be used.

FEDERAL ADMINISTRATIVE COSTS

The Act provides that Federal administrative expenses incurred in connection with any program, activity, or account shall be subject to reduction under a sequester order. Any exemption, exception, limitation, or special rule is not intended to include these Federal administrative or operating expenses unless it does so by specific reference.

Under this provision, administrative or operating expenses of all the departments and agencies of the Federal government, including independent agencies, would be subject to reduction unless specifically exempted. This provision includes programs and agencies that are self-financing and that do not receive appropriations.

The term administrative or operating expenses is intended to include obligations for items such as personnel compensation, travel, transportation, communication, equipment, supplies, materials, and other services. It is not the intent of the conferees to include payments, loans, or other benefits resulting from prior legal obligations under the term administrative or operating expenses.

For purposes of this section, payments made by the Federal government to reimburse or match administrative costs incurred by State or local governments, such as the Federal matching payments for State AFDC, costs for State disability determination units, and Medicaid administrative expenses shall not be considered administrative expenses.

CONGRESSIONAL RESPONSE

In the Senate, a procedure would be established to allow the Senate Budget Committee to affirm, in whole or in part, the sequestration order and provide for a congressional response using a reconciliation-type process involving both instructions to committees. The Senate Budget Committee would have the authority to include in a reconciliation bill pursuant to those procedures actual legislative language fulfilling the instruction to a committee which completely fails to comply.

These procedures are necessary to enable the Senate to respond quickly to an order by limiting debate and amendments which would not be limited under normal Senate procedures. Since the House has the ability to take legislation through the Committee on Rules, which can limit debate and amendments, there are no specific procedures for responding to an order.

SUSPENSION BY JOINT RESOLUTION IN CASE OF RECESSION

The Act establishes a procedure for suspending certain of its provisions enforcing the MDA in the event of a recession. The Director of the Congressional Budget Office is required to notify Congress at any time if, during the quarter that notification is given, the quarter preceding notification, and the four quarters following such notification, CBO or OMB has determined that real economic growth is projected to be less than zero in any two consecutive quarters.

The Director must also notify Congress if the Department of Commerce's preliminary reports or revisions of actual real economic growth indicate that the rate of real economic growth for the most recent reported quarter and the immediate preceding quarter is less than one percent.

Upon such notification, the Majority Leader of each House shall introduce a joint resolution declaring that the economic conditions specified are met and suspending the relevant provisions of the legislation for the remainder of the current fiscal year and for the following fiscal year. This provides an opportunity for the Congress to respond to the recession with a budget program outside the constraints of the Act for the recession and early recovery period. However, it is important to note that such a suspension does not modify the maximum deficit amounts and the timeframe for achieving a balanced budget in subsequent fiscal years.

Provisions suspended

The provisions of the Act which are suspended by the joint resolution are as follows:

1. The maximum deficit amount for the current fiscal year and the next fiscal year as it applies to Congressional budget resolutions and the President's budget submissions;
2. Points of order for the *current* fiscal year enforcing spending and revenue levels, and the maximum deficit amount in the Senate, established in the budget resolution for such year;
3. Points of order for the *next* fiscal year enforcing spending and revenue levels established in the budget resolution for such fiscal year, except that if a budget resolution for such year has not been agreed to before the introduction of the joint resolution, then these points of order will not be suspended. The points of order in the Senate for enforcing the maximum deficit level for the next fiscal year is suspended regardless of the status of the budget resolution for such fiscal year.
4. The issuance of any joint report by CBO and OMB and any report of the Comptroller General reporting excess deficits, the issuance of any initial or final sequestration order by the President, and the operation of any initial sequestration order. However, a final sequestration order issued prior to enactment of the joint resolution is not suspended.

Form of joint resolution

The form of the joint resolution is prescribed in the Act. The joint resolution introduced pursuant to this procedure is referred to the Committees on the Budget of both Houses. The joint resolution is to be reported by the Budget Committee to its House, without amendment, within five days after introduction. If the committee fails to report the joint resolution within the five-day period, it shall be automatically discharged from further consideration and the resolution will be placed on the appropriate calendar.

A vote on final passage of a joint resolution shall be taken within five days after it was reported or discharged. No amendment to a joint resolution is in order in either House of Congress.

When the joint resolution is agreed to, the Clerk of the House or the Secretary of the Senate engrosses, certifies, and transmits the joint resolution to the other House of Congress as soon as practicable. Expedited procedures for the consideration of the joint resolution are set forth for both the House and Senate.

JUDICIAL REVIEW

The Act authorizes expedited judicial review of constitutional questions raised by a Member of Congress or any other adversely affected person. Legal action may be brought by a Member of Congress in the United States District Court for the District of Columbia on the grounds that any sequestration order that might be issued violates the Constitution or that the Presidential sequestration order does not comply with requirements of the Act. The measure specifically provides that such an action will be heard by a three-judge panel of the U.S. District Court for the District of Columbia, and authorizes an immediate appeal to the U.S. Supreme Court.

Any order of the United States District Court for the District of Columbia which is issued pursuant to this section of the legislation is reviewable by appeal directly to the United States Supreme Court. An appeal is taken by filing a notice of appeal within 10 days after an order is entered; the jurisdictional statement must be filed within 30 days after an order is entered. A stay of an order issued pursuant to an action brought under this section cannot be issued by a single Justice of the Supreme Court. The United States District Court for the District of Columbia and the United States Supreme Court are required to advance on the docket and to expedite the disposition of matters brought under the legislation.

If a court of competent jurisdiction finally determines that an order issued by the President under the Act for any fiscal year does not comply with the sequestration procedures, the President must, within 20 days after such a determination is made, revise the order in accordance with the judicial determination. If the Presidential order does not comply with the sequestration procedures on the claim or defense that the constitutional powers of the President prevent such sequestration and such claim or defense is finally determined by the United States Supreme Court to be valid, then the entire order for such fiscal year is null and void.

An order by a court granting declaratory or injunctive relief from a Presidential sequestration order, including relief permitting or requiring expenditure of sequestered funds, does not take effect during the pendency of the action or an appeal until the court has entered its final order disposing of the action.

Alternative Procedures for the Joint Reports of the Directors—"Fall-back" Procedure

If any of the reporting procedures required of the Directors of the OMB, the CBO, and the GAO under the Act are invalidated by the Court, then the CBO/OMB reports are transmitted to a Temporary Joint Committee on Deficit Reduction rather than to GAO, and GAO has no reporting role. The Joint Committee is composed of the entire membership of the Budget Committees of the House of Representatives and the Senate. The chairmen of the House and Senate Budget Committees act as cochairmen of the Joint Committee. Actions taken by the Joint Committee are determined by the majority vote of the Members representing each House.

The purposes of the Joint Committee are to receive the CBO/OMB reports and to report a joint resolution setting forth the contents of such reports. A joint resolution should be reported to the House of Representatives and the Senate within five days after receipt of such a report. The provisions pertaining to consideration of a joint resolution in the event of a recession also apply to consideration of a joint resolution reported under this alternative procedure in the House and Senate, except that debate in each House shall be limited to two hours. Upon enactment, the joint resolution is deemed to be the GAO report otherwise required by the Act. Enactment of this joint resolution would trigger the sequestration process.

AMENDMENTS TO THE CONGRESSIONAL BUDGET ACT

In addition to establishing a new procedure, "sequestration," as part of the Executive and Congressional budget processes, the Act also substantially amended the existing budget process. Most of the reforms codify congressional budget practices that have evolved since the original Congressional Budget Act was adopted in 1974. However, some are designed to enforce the maximum deficit amounts set forth in the Budget Act.

The Act requires the President to submit a budget which does not exceed the maximum deficit amount for the applicable fiscal year. Further, congressional budget resolutions must also be within the maximum deficit amount of the applicable fiscal year. (This prohibition is enforced by points of order in the House and Senate.)

As noted earlier, the Act provides that a budget resolution cannot contain a deficit level in excess of the MDA for the applicable fiscal years. This prohibition applies to the committee-reported budget resolution, any amendments thereto, or conference report thereon. In the House, three-fifths of Members present and voting are required to waive this point of order against *a conference report* on a budget resolution. This is the only super-majority waiver requirement created by the Act applicable in the House of Representatives.

The revenues and disbursements of the Social Security program are included in the calculation of the deficit for purposes of the congressional budget resolution, the President's budget, and the excess deficit. For all other purposes Social Security is considered off-budget. A new point of order is established which prohibits any changes to the Social Security program to be included in a reconciliation bill pursuant to a budget resolution (this prohibition also applies to a Senate-originated response to sequestration).

The Budget Act is amended to establish spending controls at the subcommittee or program level. Legislation is subject to a point of order if it exceeds the appropriate committee's section 302(b) subdivision of new discretionary budget authority, new entitlement authority or credit authority. (In the Senate the point of order is based upon budget authority and outlays.) Under current law this subdivision is not binding.

Other amendments to the Budget Act codify existing congressional practices. For example, the Budget Act is amended to require adoption of only one annual budget resolution (although it may be revised at any time). The content of the resolution is expanded to include advisory budgetary levels for the two succeeding fiscal years, and reconciliation instructions for three fiscal years. Section 302(a) of the Budget Act is amended to reflect how the House and Senate Budget Committees technically allocate the spending authority in the budget resolution to the committees of jurisdiction. In the House, a committee is "held harmless" from certain points of order if it is within its section 302(a) total allocation of new discretionary budget authority and new entitlement authority.

The scope of the budget process is expanded to establish binding levels on credit authority, to require new credit authority to be subject to the appropriations process, and to define new types of "backdoor" spending authority.

Finally, the timetable for the budget process is accelerated. In addition to the timetable below, House rules are amended to require early organization of the House.

CONGRESSIONAL BUDGET PROCESS TIMETABLE

On or before:	
First Monday after January 3 [1]	President submits his budget.
February 15	Congressional Budget Office submits report to Budget Committees.
February 25	Committees submit views and estimates to Budget Committee.
April 1	Senate Budget Committee reports concurrent resolution on the budget.
April 15	Congress completes action on concurrent resolution on the budget.
May 15	Annual appropriation bills may be considered in the House.
June 10	House Appropriations Committee reports last annual appropriation bill.
June 15	Congress completes action on reconciliation legislation.

CONGRESSIONAL BUDGET PROCESS TIMETABLE—Continued

June 30	House completes action on annual appropriation bills.
Before July recess	House must complete action on all regular appropriation bills and reconciliation legislation before it can consider an adjournment resolution for more than 3 calendar days.
October 1	Fiscal year begins.

[1] Feb. 5 for FY 1987 budget submission.

○